# CORPORATE GOVERNANCE AND FINANCIAL REPORTING QUALITY IN THE NIGERIAN LISTED FIRMS: THE MODERATING EFFECT OF DEBT STRUCTURE

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**DOCTOR OF PHILOSOPHY**
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**By**

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# ABSTRACT

The quality of financial report depends on its reliability, comparability, accuracy and relevance that could guide investors make an informed investment decision.The objective of this study among others is to investigate the moderating effect of leverage on the relationship between board, and audit committee characteristics and  financial reporting quality in the context of Nigerian non-financial listed firms. The study also examines the impact of changes in Nigeria's Code of Corporate Governance, 2011 on the quality of financial reporting between 2010 and 2014. Using multiple regression technique, the study utilised McNichols (2002) measure of earnings quality using pooled panel data, with 101 sample and 505 firm-year observations. The results reveal that the relationship between leverage, audit committee share ownership, board gender diversity and audit committee financial expertise are negative and statistically significantly associated with earnings management at 5% level. This indicates that the long-term debt has a monitoring ability in mitigating earnings management practices, thus, enhancing financial reporting quality of Nigerian non-financial  listed firms. This study also finds that the revised Nigerian Securities and Exchange Commission Code of Corporate Governance, 2011 has brought about new regulatory changes that effectively enhance the quality of financial reporting. The practical and the theoretical contribution of this study indicates that the agency theory and resource dependence theory are important theories when explaining corporate governance practices in Nigeria. However, further studies might extend the data collection to financial institutions, family controlled and private companies. Again, to clearly understand the inner workings of the audit committee in Nigeria, a more detail qualitative and case studies could be carried out.

**Keywords:**corporate governance, leverage, earnings management, financial reporting quality, value relevance,

# ABSTRAK

Kualiti laporan kewangan bergantung kepada kebolehpercayaan, kesesuaian, ketepatan dan kaitan hubungan yang boleh memberikan keputusan berkenaan pelaburan kepada pelabur. Objektif kajian ni antara lain adalah untuk menyelidik kesan pengantara keumpilan (*leverage*) ke atas hubungan antara lembaga pengarah (*board*), ciri-ciri jawatankuasa audit dan kualiti pelaporan kewangan syarikat bukan kewangan yang tersenarai di Nigeria. Kajian ini juga menyelidik kesan perubahan dalam Kod Tadbir Urus Korporat di Nigeria terhadap kualiti laporan kewangan di antara tahun 2010 dan 2014. Penyelidikan dijalankan menggunakan pengukuran kualiti pelaporan kewangan McNichols (2002) dengan menggunakan data panel terkumpul yang diambil daripada 101 sampel dengan 505 pemerhatian di firma-tahun. Dapatan kajian menunjukkan bahawa hubungan antara keumpilan, jawatankuasa audit pemilikan saham, kepelbagaian jantina lembaga pengarah dan kepakaran kewangan jawatankuasa audit adalah negatif dan dari segi statistiknya berkait secara signifikan dengan pengurusan perolehan sebanyak 5%. Ini menunjukkan bahawa hutang jangka panjang mampu menangani amalan pengurusan pendapatan, sekali gus meningkatkan kualiti pelaporan kewangan syarikat bukan kewangan yang tersenarai di Nigeria. Selanjutnya, hubungan antara saiz lembaga pengarah dan ketidakbergantungan jawatankuasa audit adalah negatif dan berkait secara signifikan dengan pengurusan perolehan. Kajian ini juga mendapati bahawa Kod Tadbir Urus Korporat Nigeria 2011 yang telah disemak semula membawa perubahan peraturan baharu dalam meningkatkan kualiti pelaporan kewangan secara berkesan. Hasil dapatan kajian secara praktikal dan teori mendapati teori agensi dan teori kebergantungan sumber adalah teori-teori yang penting dalam menerangkan pelaksanaan tadbir urus korporat di Nigeria.Walau bagaimanapun, kajian akan datang boleh mempertimbangkan pengumpulan data bagi institusi kewangan, firma kawalan keluarga dan perniagaan persendirian. Seterusnya, bagi memahami perjalanan kerja di dalam jawatankuasa audit di Nigeria, kajian yang lebih teliti dari segi kualitatif dan kajian kes perlu dilaksanakan.

**Kata kunci:**tadbir urus korporat, keumpilan, pengurusan perolehan, kualiti pelaporan kewangan, kaitan nilai.

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| | |
|---|---|
| AC: | Audit Committee |
| ACIND: | Audit Committee Independence |
| ACFE: | Audit Committee Financial Expertise |
| ACSOW: | Audit Committee Share Ownership |
| AFE: | Accounting and Financial Expert |
| AIC: | Akaike Information Criterion |
| ASX: | Australian Standard |
| AQ: | Accrual Quality |
| BIC: | Bayesian Information Criterion |
| BIND: | Board Independence |
| BGD: | Board Gender Diversity |
| MSOW: | Managerial Share Ownership |
| BODs: | Board of Directors |
| BS: | Board Size |
| CBN: | Central Bank of Nigeria |
| CEDU: | Chief Executive Officer Duality |
| CG: | Corporate Governance |
| CCG: | Code of Corporate Governance |
| CS: | Capital Structure |
| DQ: | Disclosure Quality |
| ED: | Executive Directors |
| EM: | Earnings Management |
| EQ: | Earnings Quality |
| FS: | Firm Size |
| FA | Firm Age |
| FGR: | Firm Growth |
| FRQ: | Financial Reporting Quality |
| IV: | Independent Variable |
| LEV: | Leverage |
| MCCG: | Malaysian Code of Corporate Governance |
| MSOW: | Managerial shares ownership |
| NDIC: | Nigerian Deposit Insurance Corporation |
| NED: | Non-executive Directors |
| NSE: | Nigerian Stock Exchange |
| INED: | Independent Non-Executive Director |
| PRAT: | Profitability |
| PM: | Price Model |
| REM: | Returns Earnings Model |
| ROA: | Return on Asset |
| SEC: | Securities and Exchange Commission |
| VIF: | Variance Inflated Factor |
| VR: | Value Relevance |

# CHAPTER ONE
# INTRODUCTION

## 1.1 Background of the Study

Financial information users mostly rely on financial information provided by companies in their annual reports for decision-making. The information is contained in a financial report prepared by the managers and is subjected to audit by professionally qualified auditors that add to its credibility, reliability, relevance and acceptability. Financial information serves as an important communication link between users and management of corporations. It also serves as a means of assessing the results of operations and financial position of the firm.

Therefore, the financial report should provide complete, timely, transparent and reliable financial information that is not deliberately prepared to mislead users. Also, "the objective of financial reporting is to provide information about the reporting entity that is useful to investors. Equally, it should guide investors and creditors in making informed decisions. Information that is decision-useful to capital providers may also be useful to other users of the financial report who are not capital providers" (Alzoubi, 2012, p.368). Despite its importance, financial information may not always be credible and reliable because it may contain errors, deliberate manipulation of accounting numbers, as well as a misrepresentation of earnings, also known as income smoothing.

Nigeria has established institutions to regulate public entities, in the preparation and reporting of financial information such as Security and Exchange Commission Code of Corporate Governance (SEC, CCG), Financial Reporting Council of Nigeria (FRCN), Central Bank of Nigeria Code of Corporate Governance (CBN, CCG), National Insurance Commission Code of Corporate Governance (NIC, CCG). These institutions are set to regulate and ensure quality financial information are provided to users.

In some cases, the multiplicity of these institutions contribute towards non-compliance and circumvention of specific rules or codes. Sometimes, companies adopt industry based code provisions that contradict the SEC Code adjudged to be the unifying Code and is expected to be observed by all public companies. This may lead to low quality of financial information released to stakeholders. Thus, Ball, Robin and Wu (2003) argue that inadequate or multiple regulation results in low quality of financial reporting. On the other hand, the auditor is required to provide a high quality audit that would guide users to make an informed decision based on the financial report released to them.

In this respect, external audit plays a significant role in reducing agency costs by reducing information asymmetry in financial reporting (Piot & Janin, 2007). The recognition of external audit as a monitoring mechanism by the agency theory is due to its ability to control conflict of interest and reduce agency costs.

As such, a high quality audit can reduce manager's ability to engage in activities that promote their opportunistic behaviour at the detriment of owners. On the other hand, Sloan (2001) opines that management produces financial accounting information as an input to the governance process.

Proponents of agency theory argue that the control and ownership separation lead to the problems of moral hazard, where agents act to obtain personal benefits at the expense of shareholders. To curtail such behaviour, effective control by the board would greatly help. However, the effectiveness of the board monitoring depends on board composition, board structure, board activity and other sub-committees of the board (He & Yang, 2014). Also, scholars and investors suggested the need to develop and regulate the behaviour of corporate managers and firm's performance that weaken public confidence (Merino et al., 2010).



Accordingly, Chan, Liu and Sun (2013) argue that the existence of corporate governance (CG) is to provide checks and balances between shareholders and management and help in resolving agency problems. He further argues that with better governance quality, firms should suffer fewer agency conflicts. Similarly, Dechow, Ge, and Schrand (2010) stated that the ability to adequately supervise the managerial activities and constrain opportunistically managed earnings lies with effective internal CG mechanisms such as the Board of Directors. Also, Dechow and Skinner (2000) and Shi and Zhou (2013) argue that board independence, its audit committee (AC), and their financial expertise were found to affect the level of managers' discretionary accruals leading to earnings management (EM) practices.

Consequently, prior studies have found that good governance minimises the adverse effects of creative financial reporting and EM (Beasley, 1996; McMullen & Raghunandan, 1996; Musa, Olurontoba & Oba, 2014). As such, enhanced CG practices should be able to reduce EM practices. The global financial crises that engulfed Asian and European countries as well as the USA affected capital markets and its CG which described their weaknesses that led to agitation for more efficient CG practices (Mitton, 2002). Following this, CG reforms have become a global concern that motivated several countries to issue or modify Codes of Best Practices in CG. The aims are to address the governance issues of board characteristics, efficient ACs and enhancing the quality of financial reports (SEC, 2011b). A former US SEC Chairman stated that an active capital market strongly relies on quality information. He argued that efficient markets would cease to exist without quality financial information. Hence, for an enhanced quality financial report; CG mechanisms should be established or enhanced (Levitt, 1998).

Also, an increase in debt financing effectively reduces equity capital and a company's equity base, hence increasing the proportion of equity ownership by management and enhancing the probability of bankruptcy. Additional risk may increase managers' motivation to decrease their perquisites (privileges, incentives, bonuses or advantages) due to the debt employed and increase their efficiency (Grossman, & Hart, 1982). The obligation of interest payments resulting from the use of debt would restrict the use of cash flows at the discretions of managers optimally. However, where debts are employed, cash flows would now be limited to debt servicing (principal & interest) payments. Thus, this would help resolve the free cash flow problem (Jensen, 1986).

Since the leverage (long-term debt) imposes constraints on managerial discretion, agency theory suggests that managers may be motivated to adopt less leverage that does not maximise shareholders' wealth (Chang, 2013). Furthermore, the extent to which managers can take on less leverage depend on the strength of CG since CG is designed to combat agency conflict (Jiraporn, Kim, Kim, & Kitsabunnarat, 2012). Jiraporn et al. (2012) further argue that firms with weak governance are significantly more levered. Since leverage as a monitoring mechanism performs similar functions just like CG, it could serve as a substitute for each other in alleviating agency conflicts. Nonetheless, this does not mean poor governance quality leads to higher leverage (Jiraporn et al., 2012).

On the other hand, Adegbite (2015) stressed that institutional perspective provides insights into the complexity of CG structures and practices with regards to their peculiarities regarding countries and regions. These peculiarities become more important when drawing a comparison between strong and weak institutional contexts (Nigeria). As a result, this study is peculiar to Nigerian non-financial listed firms characterised by the weak governance structure (World Bank, 2012).

Several corporate scandals in the past decade and the limited success of regulatory reforms further demand quality reporting that would decrease fraud, misstatements of accounts and EM. Thus, improving the effectiveness of the AC would enhance the financial reporting quality (FRQ). Public liability companies in Nigeria are expected to prepare and publish their audited financial reports annually. In preparing the reports, they are required to comply with the requirements of the Companies and Allied Matters Act (CAMA) Cap. 20, Law of the Federation of Nigeria (LFN) 2004: Securities and Exchange Commission Code of Corporate Governance (SEC, 2011).



Further, Statement of Accounting Standards (SAS) and other provisions relevant to the industry in which the company operates form part of the compliance requirement. The SAS issued by the Financial Reporting Council of Nigeria serves as a guide for the preparation of reports that assist users of financial statement in making financial decisions. The preparations of reports by public liability companies in Nigeria in line with such standards has created comparability problems, difficulties in accessing funds internationally and increased the cost of conversion (Samaila, 2014). In this regard, a guide for convergence to the International Financial Reporting Standards (IFRS) was prepared in 2010. Henceforth, public liability companies are required to prepare their accounts in line with the IFRS effective from January 2012. The adoption of IFRS in Nigeria would enhance global comparability for investors, improve the quality of reporting and lower the cost of capital for companies adopting IFRS.

It is not the presentation, compliance and disclosure of financial information to the regulatory authorities that matter. Rather, investors consider the value-relevance of such information that would enable sound investment decision and returns of their investments. Thus, financial statements across the globe, including Nigeria, are generated from a variety of inputs, specifically legal, regulatory, industry and firm-specific components (Ragab & Omran, 2006). Due to the importance of financial statements in conveying firm's information to shareholders and the public, the issue of value-relevance becomes an important factor that is worth examining.

Thus, value-relevance of financial information has been described as the ability of financial data to summarise firm value or to reflect information that affects stock market measures. One of the principles of good corporate governance is the requirement for full disclosure of all facts to stakeholders that explain whether corporate governance has any influence whatsoever on the value-relevance of a firm's financial reports. Consequently, efficient allocation of resources largely depends on the available financial information contained in the financial reports.

Empirical evidence supports that the value-relevance of accounting information for firms depends on good governance structures (Vafeas, 2000; Habib & Azim, 2008). Accordingly, Dimitropoulos, Asteriou and Koumanakos, (2010) documented that the size of the board has no relationship with how informative the earnings information is, However, it is positively related to the number of independent non-executive directors on the board. They further argue that firms with a higher percentage of independent non-executive directors report higher earnings quality compared to companies with a lower proportion of independent non-executive directors.

Conversely, Hashim and Devi (2008) argue that board independence and managerial share ownership have no value-relevance for Malaysian companies although the study found evidence of family ownership of some Malaysian businesses. In contrast, Vafeas (2000) found board composition has no value-relevance of accounting information, although it was found that board size to be value-relevant. Therefore, empirical data indicates that although corporate governance is a crucial factor for the value relevance of accounting information, specific governance variables can improve the quality of financial reporting depending on the institutional settings, thus calls for country specific studies.

## 1.2 Motivation for the Study

Before the global financial crises, financial institutions in Nigeria collapsed while others were rescued with the support of public funds by the government. For instance, from 1994 to 2006, 45 commercial banks were liquidated, while nine (9) banks were declared distressed in 2008 but rescued from total collapse by the Government with a financial aid worth ₦6.2 billion (Adeyemi, 2011). Therefore, the failure of Nigerian firms is not different from corporate failures across the world, particularly in the financial institutions. Failure of these institutions were the result of poor corporate governance practices, ineffective oversight functions of the Board, self-serving and fraudulent practices among board members and senior management as well as undue influence of the MD/CEO or Chairman are some of the factors responsible for their failures (CBN, CCG, 2006).



Furthermore, weak internal controls and non-compliance with specified internal controls and operation procedures, also to ignorance of and inability to comply with rules, laws and regulations guiding the banking business had contributed to the collapse and liquidation of those banks (CBN, CCG, 2006). The Financial Reporting Council of Nigeria's suspension of Stanbic IBTC Bank's Chairman and two directors for providing stakeholders with misleading financial statements for 2013 and 2014 provided further evidence on the quality of financial reporting in Nigeria (Olowokure, Tanko, & Nyor, 2016). The actions taken by the banking regulatory body did not cover non-financial institutions to monitor their boards and management actions in providing adequate financial informations to the owners (principals) and other stakeholders. This creates information asymmetry leading to adverse selection according to the agency theory.

Similarly, observations were made by the World Bank (2012) that some banks exploit loopholes in the Nigerian accounting and auditing standards and weak capacity of the regulatory bodies and its enforcement. Employment of creative accounting to boost their balance sheets were associated with weak and constrained good corporate governance practices in Nigeria. The weaknesses in financial reporting and auditing led to the Nigeria's banking sector crisis (World Bank, 2012). Thus, the World Bank report characterises the nature and practices of low quality financial reporting and weaknesses in the governance of public companies in Nigeria. In order to safeguard investors' interest against financial malpractices and restore their confidence, SEC had reviewed its CCG which focuses on enhancing board of directors' independence and the effectiveness of ACs.

Therefore, due to the absence of a similar regulatory body to oversee the activities of non-financial institutions such as CBN and NDIC, coupled with SEC's weakness in supervision and observance of its code (World Bank, 2004; 2012), studies on CG and FRQ in the non-financial sector of Nigeria are current and burning issues hitherto neglected. Hence, there is a need to explore and understand the nature and quality of reported earnings of listed non-financial firms in Nigeria, thus enhancing the confidence of the capital market operators (investors).

In the same vein, manager's involvement in managing earnings without adequate monitoring could encourage deceptive and fraudulent behaviour that may lead to low quality financial reporting. Furthermore "fraudulent and self-serving practices among members of the board, management, and staff pose a significant challenge to the effectiveness of the CG Code in Nigeria (CBN, CG, Sec.2.3, 2006, p.4 )". Fama and Jensen (1983) posit that one of the essential components of the decision control system is the role of the AC for internal monitoring of management activities. Besides, the audit committee which comprises of directors and shareholders that are expected to provide adequate control in enhancing the quality of financial reports, is composed of people who are not knowledgeable in accounting and financial issues, thereby making it less effective (CBN, CCG, 2006).

Accordingly, practices such as falsification of records, and adoption of unethical practices spread across the banking sector in Nigeria due to the desire to boost income as a result of intense competition. Similarly, false reporting of returns to the regulatory authorities and concealment of information from CBN examiners prevent detection of abnormal situations in the banks as a result of lack of transparency and pressure to boost income. Thus, persistent concealment of material issues compromised sound corporate governance and affect the quality of financial information,  making it less reliable. As a result, Nigerian SEC Code of Corporate Governance, 2011 was reviewed to reduce the adverse effects of creative financial reporting.

Diversity in the context of corporate governance refers to the Board composition and combination of qualities, characteristics and expertise of members in the areas of board processes and decision making (Ingley & Walt, 2003). Therefore, the gender of board members is one of the features of diversity which is the most distinct demographic feature as compared to age, nationality, education or cultural background. Evidence exists in the literature from developed countries on the active participation of women in public life which supports the notion that presence of women on corporate boards improves performance as well as enhances monitoring. The cultural/traditional and religious settings of African countries place many restrictions on women participation in public activities. As a result, women in the African continent are now pushing for an active role in the management and governance process (Obanya & Mordi, 2014).

Geographically, Nigeria is divided into three regions with sectoral variations and diverse cultures with over 186 million people and 368 ethinic groups. Women participation in active politics, trade unions and associations' activities could be found in the southern and eastern parts of Nigeria. While in the north, the complex social, religious, economic, geographical and historical factors underlie the enduring disadvantage faced by women in the region (Council, 2012). In addition, Western education is less pursued amongst women in the north who are predominantly Muslims. Women in the north do not associate freely with their male counterparts in social and economic endeavours, which makes their presence low compared with the women from the Western and Eastern (predominantly Christians) parts of the country. Furthermore, the gender report in Nigeria (2012) reported that there are more women in the formal sector in the South than in the Northern part and the rate of female entrepreneurship is lower in the States of the North (23%) than in the South (36%).

However, there is no law restricting women participation in all spheres of public life in Nigeria. The struggle for a fair share of women in political offices began a long time ago. It is only in 1985 that Nigeria ratified the 1979 Convention on the Elimination of Discrimination against Women (CEDAW) after several efforts of implementing it locally have failed. Besides other protocal agreements, Nigeria adopted the 1995 Beijing Platform for Action and signed the Protocol on the Rights of Women in Africa (The Maputo Protocol). Yet, implementation remained weak. The dominance of men can be seen in all spheres of women’s lives as it is clearly reflected in women's representation in politics and governance. Although the Nigerian Gender Programme has set a target of 35% as a benchmark towards gender equality in Nigeria, much is required in order to actualise the set target. Even though progress has been made, more needs to be done to achieve the gender equality benchmark. Thus, Nigeria needs to meet at least a 20 percentage point gap (Council, 2012). As a result, the set target focuses mainly on appointments in political offices with less emphasis on participation in economic activities such as women climbing up the ladder to the top echelon of the corporate board positions. Therefore, rather than focusing on political positions, this study examines the presence of women on corporate boards in the Nigerian non-financial listed companies and how their presence impacted the quality of earnings of such companies.

Consequently, regulators and researchers developed an interest in the issue of quality of financial reporting based on its importance in providing financial information to users. It also provides opportunities of assessing the firm's economic performance and management actions that help them in making decisions (Fodio, Ibikunle, & Oba, 2013). Furthermore, evidence has shown that studies conducted on CG and FRQ are few in Nigeria (Hassan, 2011; Hassan, 2013; Sama'ila, 2012) and focused more on banks with emphasis on board characteristics of independence, board size, meetings and external audit attributes of audit firm size. Again, the studies used few samples with a focus on specific industries. Given the inadequacy of studies on other relevant governance variables such as gender diversity, leverage and other audit committee financial expertise, the AC share ownership which was among the SEC CCG, 2011, incorporated changes introduced as a CG variable that may influence FRQ of Nigerian listed firms. This study fills the gap by extending the scope, by incorporating all non-financial listed firms. In addition, the study examines the impact of board and audit committee characteristics on earnings management.

Accordingly, capital structure (CS) decision is an important decision in CG. It involves decisions on the appropriate financing mix of debt and equity that aims to increase shareholder's wealth, firm value and firm performance. Jiraporn et al. (2012) argue that CS decisions affect some governance mechanisms such as board structure (Harford, Li, & Zhao, 2008), executive compensation (Berger, Ofek, & Yermack, 1997) as well as anti-takeover status and provisions (Garvey & Hanka, 1999; Jiraporn & Gleason, 2007; John & Litov, 2010).

Further, Kochhar (1997) argues that where CS decisions are weak, there is the likelihood of decline or loss in firm value derived from strategic assets. Therefore, decisions on the appropriate financing debt-equity mix are crucial for effective and efficient firm performance. In a similar study, Singh (1997) argues that differences in the financial environment were found to contribute to different ways of financing in developing countries. Singh (1997), maintained that developing countries do not observe pecking order theorem in the financing decisions where most companies depend so much on external financing through short-term finance. Similarly, Salawu (2007) reported that 60 percent of companies' CS were financed by short-term debt in Nigeria. The findings were corroborated by Isola and Akanni (2010) and Olokoyo (2013) who documented that a majority of Nigerian firms are financed by equity capital or a mix of equity capital and short-term financing. Given the changes in the growth of the Nigerian economy, the differences in the previous studies in long versus short-term debt financing of listed companies need to be further explored, particularly in the non-financial companies. Thus, long-term debt is less employed in companies' capital structure resulting in the lack of study of its impact in monitoring and control of the financial reporting process.

Further, bond holders are not members of the board and do not participate in the governance of Nigerian companies creating information asymmetry between bond holders, boards and the management. Consequently, this study examines the impact of long-term debt (leverage) as a moderating variable between some governance mechanisms and FRQ. In support of this study, the agency theory has given sufficient evidence in the use of leverage to reduce asymmetric information and subsequently decrease agency cost. Theoretically, based on the agency theory and resource dependency theories, leverage could serve as a moderator between some selected CG variables and earnings management.

Furthermore, there are various views globally in respect to a firm's characteristics and quality of financial reporting. Prior studies (Wallace et al., 1994; Chen & Jaggi, 2007; Hassan, 2012) argue that a firm's structure plays a more significant role in curtailing managers from manipulating accounting numbers compared to monitoring or performance variables measures. In addition, oversight mechanisms are better in controlling management opportunistic behaviour in the preparation of financial statements. Besides, in the institutional context of Nigeria, corruption occurs in almost all public activities. The 2011 review of SEC regulatory rules that provides a number of changes in the corporate governance code is aimed to enhance governance mechanisms of public companies. However, studies on these changes are very limited and particularly neglected the non-financial sector of the economy. Hence, a comprehensive study on the new provisions introduced by SEC Code 2011 on board and audit committee characteristics is required, and that would be of interest to regulators and practitioners. Furthermore, this study will be of interest to investors since the level of prevalence of earnings management and associated board's and audit committee characteristics can help investors to assess the overall informativeness of the report.



## 1.3 Problem Statement

Corporate governance (CG) plays a major role in firms' commitment and adoption of ethical practices within the organisational structure and relationships with employees, customers, creditors, shareholders, and regulators. Managers use earnings management to influence (increase/ decrease) the reported earnings using different techniques. The aim is to meet the target, i.e., to avoid reporting losses (Cohen & Zarowin, 2010). Similarly, Woidtke and Yeh (2013), argue that firms involved in fraudulent financial reporting have poor governance, low earnings quality, and busy outside directors. Consequently, fraudulent financial reporting has an adverse effect on the shareholders which lead to bankruptcy, capital shortage and fraud. Therefore, effective monitoring of management activities and legal compliance facilitates the prevention of unlawful and improper behaviour. Also, regulators across the globe emphasise the need for firms' compliance with the CG Code of best practices to control and monitor improper behaviour (Blue Ribbon Report, 1999; Bebchuk, Cohen, & Ferrell, 2009).

Adegbite (2010) opined that poor CG is a major factor that has given rise to distress in the Nigeria banking sector. For instance, in 2009 the CBN reported nine (9) insolvent banks (Afribank, Finbank, Intercontinental Bank, Oceanic Bank, Union Bank, BankPHB, Equitorial Trust Bank, Spring Bank and Wema Bank) which were declared bankrupt because of their audit tests failure due to capital shortage.

Nevertheless, a year before (2008) the Nigerian Stock Exchange (NSE) declared the majority of these banks as the listed firms with the highest market capitalisation (Foyeke, Olajide, Oluku, & Kolade, 2016). The fact that immediately after appearing as the most capitalised companies in the previous financial year, then suddenly being declared bankrupt and collapsed signify information asymmetry between owners and managers which are agency issues that need to be addressed to restore investors' confidence. Perhaps, the financial information presented to the stakeholders by these companies might not be their true financial positions. Furthermore, reported cases of African Petroleum, Lever Brothers and Cadbury Nigeria PLC are among the most notable fraudulent cases involving non-financial firms in Nigeria (Ajibolade, 2008).

Diversity in the context of corporate governance refers to the board composition and combination of qualities, characteristics and expertise of members about board processes and decision making (Ingley & Walt, 2003). Therefore, board gender is one of the features of diversity which is the most distinct demographic features compared to age, nationality, education or cultural background. The cultural/traditional and religious settings of African countries place many restrictions on women participation in public activities. As a result, women in the African continent are now agitating for a more active role in the management and governance process. However, Nigeria has over 186 million people with approximately 52% female population. This indicates the need to have women presence and active participation in all spheres of public activities. Nevertheless, the issue of the presence of female directors on the corporate boards of Nigerian companies is less explored in Nigeria. Thus, this study aims to consider the impact of gender diversity in the corporate boards of non-financial listed firms in Nigeria. There is evidence of studies on corporate governance and earnings management with mixed findings. The mixed findings could be attributed to differences in socio-cultural, economic and political environment that require more research to be conducted, particularly in developing countries that have peculiarities regarding development and compliance with standards. Consequently, Lin and Hwang (2010) argue that value relevance of earnings is country specific as different countries have different institutional settings. Furthermore, emerging economies are characterised by low levels of economic growth, insufficient corporate governance structures, financial and capital market development, multiple regulations, and timeliness of the financial information and the legal regimes sets them apart from other developed countries.

Therefore, generalisations of the findings of previous studies are limited to those countries being studied. Hence, there is a need to use Nigerian data for better understanding of the relationship in Nigerian firms. Besides, studies on board and audit committee characteristics and financial reporting quality in the emerging economy (Nigeria) are few. Incorporating other governance variables such as board gender diversity, managerial share ownership, audit committee share ownership and their interaction with leverage and latest data, this study would extend the work of Hassan (2012); Uadiale (2012); Fodio et al. (2013); Musa, Olaruntoba and Oba (2014). It would also provide better insight into the relationship between corporate governance and quality of financial reports in Nigeria. Again, there is the absence of consensus among the scholars on the direction (extent) to which each CG variable relating to board and audit committee characteristics influences the financial reporting quality in Nigeria. Thus, further research is needed to suit the peculiarity of the Nigerian environment, and that can improve the quality of earnings and minimise corporate failures, consequently attracting foreign investment to the economy. Accordingly, Razali and Arshad (2014) document that board composition helps in reducing agency problem, which in turn enhances the financial information quality. Previous studies on BIND in Nigeria adopted the SEC Code 2003 with the majority of the corporate boards dominated by executive directors, with few and in some companies no non-executive directors (NED) on the board, hence bringing the independence of these boards into question. However, some studies lend support to a greater percentage of outside directors on the board, arguing that they help in constraining income increasing EM. Such studies include Klein (2002), Peasnell et al. (2005) and Erena and Tehulu (2012) who argue that a negative relationship exists between independent/non-executive (outside) directors and EM.



On the other hand, He, Piot, Labelle, and Thornton (2009) document that studies justifying board independence-enhancing FRQ relates to Anglo-Saxon and other European countries, but not in all countries. Following the SEC Code 2011 regulatory change on the composition of the corporate boards, it appears that fewer studies examined the impact of such percentage increase in the NED members on the quality and informativeness of the reported earnings. Therefore, the impact of board independence on FRQ depends on the cultural values, customs and traditions of the researched country. Hence, the need to study the association between BIND and FRQ in the emerging economies (Nigerian) context to observe variations or otherwise with that of developed economies. One of the change in the SEC CG Code 2011, is a requirement for the disclosure of shares owned by all the directors of the company. Managers who control the equity ownership could influence the decision-making of the board. Managerial share ownership provides managers equity ownership of their company and creates a sense of concern and commitment to achieve corporate objectives. The absence of which may result in self-motivated interest through various means of financial misappropriations. It is unclear whether managerial share ownership (MSOW) practices in Nigeria motivate managers into reducing self-interest activities or management entrenchment practices.

Furthermore, none of the previous studies considered the MSOW impact on the FRQ. Thus, there is a need to examine the impact of managerial share ownership on earnings management practices in Nigerian non-financial listed firms. Therefore, this study considers managerial share ownership attribute and aims to provide a broader perspective on internal governance mechanisms and their impact on FRQ. Furthermore, significant changes on how to strengthen audit committee performance were introduced in the new SEC Code. Moreover, prior studies did not examine the effectiveness of the new provisions in Nigeria, particularly on the audit committee financial expertise. Further, in strengthening the AC's performance for an enhanced quality of the financial report, such AC should comprise of a minimum of three (3) members and the majority of them must be appointed from independent NED. In contrast, the composition of AC in the Nigerian SEC CCG 2011 requires membership of three (3) non-executive directors and three (3) shareholder representatives on the committee to enhance the oversight function of the AC which makes it distinct from UK, US, Malaysia, and Australia audit committee compositions. In addition, the revised SEC Code 2011 uses financial literacy as the requisite financial expertise of audit committee member on the AC of public companies in Nigeria. The uniqueness of the AC regarding composition and independence attract fewer researchers' attention. Thus, by including independence, share ownership and financial expertise after the reviewed SEC CCG 2011, this study extends previous studies on the effect of these variables on quality of the financial report.

Furthermore, previous studies on CG in Nigeria concentrated on financial institutions (banks) which constitute about 20 percent of the total listed firms, while some use selected sectors such as Manufacturing, Industrial, and Consumer Goods with smaller samples. Therefore, focusing on non-financial firms would provide a comprehensive and better understanding of the impact of corporate governance mechanisms and FRQ on different sectors and the larger scale of the economy. Consequently, the acquisition of debt by managers' ties up firm's free cash flow, which restricts unnecessary wastages of firm resources. Succinctly, Jensen (1987) referred such action as "control hypothesis" for debt creation, which suggests that managers issue debt to compel their firms to pay out future cash flows. Debt issuance allows debt-holders to take companies into bankruptcy if they default on debt service payments. Prior studies (Dichev & Skinner, 2002; Beatty & Weber, 2003) found a positive relationship between EM activities and leverage. They argue that an incentive for EM increases with leverage where managers use income increasing accruals to reduce the likelihood of the firm's debt covenant violations. However, Oino and Ukaegbu (2015) argue that majority of companies in developed countries employed long-term debt, which could be due to the developed capital market and institutional settings.

Conversely, Nigerian listed firms employ substantial short-term and less long-term debt financing in their capital structure. The composition of corporate boards in Nigeria excluded debt holders, despite their investment that needs to be monitored. However, most of the studies conducted in countries with active capital markets documented inconclusive/contradictory results. Studies carried out in Nigeria concentrated on studying CS and firm performance (Murphy, Trailer, & Hill, 1996; Salawu, 2007; Olokoyo, 2013) rather than how long-term debt mitigates earnings manipulations and improve quality of earnings. Consequently, introduction of long-term debt (leverage) may affect the relationship between the CG and earnings management.

In addition, the Nigerian accounting standards settings, institutional structure, and corporate governance are expected to be different from the developed countries in terms of development and level of compliance. In this regard, it is unclear whether evidence in the developed or other developing nations would be consistent with those in Nigerian firm's especially non-financial institutions in respect of financial information quality. Therefore, so long as the country's governance practice continues to mimic the models in the advanced societies especially the US and UK, without due consideration to the socio-cultural peculiarities of the Nigerian business environment, differing levels of observance of the principles of good governance may appear due to the inherent difference in the respective contries' value systems.

Notwithstanding the existence of ethnic diversity, the Nigeria value system is built on the cultural homogeneity where the public value orientation is being transferred into the corporate environment. These are some of the factors where a majority of multi-country or studies on international settings consider as limitations to their studies and controlled for (Filip, Labelle & Rousseau, 2015). Therefore, to avoid the effect of correlations of institutional omitted variables, this study focuses on board and audit committee characteristics and their interaction with debt structure on the Nigerian non-financial listed firms. Finally, by focusing on Nigeria, the study would provide an insight and better understanding of the uniqueness of CG practices in emerging economies such as Nigeria. Thus, this study contributes to the body of knowledge on how the interaction of leverage with corporate governance mechanisms could affect earnings management practices and improve earnings informativeness.

## 1.4 Research Questions

i) What is the impact of board characteristics on the financial reporting quality in the Nigerian listed firms?

ii) Do audit committee characteristics affect the quality of financial reporting in the Nigerian listed firms?

iii) Is there a relationship between leverage and financial reporting quality in the Nigerian listed firms?

iv) Does leverage (long-term debt) moderate the relationship between board characteristics (i.e. board independence, board gender diversity, managerial share ownership, chief executive duality) and financial reporting quality in the Nigerian listed firms?

v) Does leverage (long-term debt) moderate the relationship between the audit committee characteristics (i.e. audit committee share ownership, audit committee financial expertise) and financial reporting quality?

vi) What is the impact of the SEC Code of Corporate Governance (2011) on the quality of financial reporting of listed non-financial firms in Nigeria?

### 1.5 Objectives of the Study

The broad study objective is to examine the impact of corporate governance characteristics on the quality of financial reporting in the Nigerian non-financial listed firms. Thus, the study has the following specific objectives:

i) To examine the relationship between board characteristics (i.e. board size, board independence, managerial ownership of shares, gender, and CEO duality), and financial reporting quality in the Nigerian listed firms.

ii) To examine the effect of the audit committee characteristics on the quality of the financial reporting in Nigerian listed firms.

iii) To examine the relationship between leverage and financial reporting quality of Nigerian listed firms.

iv) To examine the moderating effect of leverage on the relationship between board characteristics (i.e. board independence, board gender diversity, managerial share ownership, chief executive duality) and financial reporting quality of Nigerian listed firms.

v) To examine the moderating effect of leverage on the relationships between audit committee characteristics (i.e. audit committee share ownership, audit committee financial expertise) and financial reporting quality of Nigerian listed firms.

vi) To determine the effect of the SEC Code of Corporate Governance (2011) on the quality of financial reporting of Nigerian listed firms.

## 1.6 Significance of the Study

Despite the need to conduct a study that investigates the relationships between corporate governance and financial reporting quality of Nigerian non-financial listed firms, hitherto, there is no evidence of study to have examined the managerial share ownership, gender diversity, audit committee financial expertise, and audit committee share ownership in the Nigerian non-financial listed firms as a whole. The moderating effect of leverage on the relationship between board and audit committee characteristics and earnings management in Nigerian non-financial listed firms proved to be the pioneer study. Therefore, the study would as well improve the practical and theoretical understanding of the moderating effect of leverage on CG mechanisms.

### 1.6.1 Theoretical implications

With regards to corporate governance variables, this study extends existing literature that an increase in board size and audit committee independence have significant negative effects on earnings management. The result is in support of the agency theory perspective that size of the board is crucial in monitoring managers' entrenchment. It argues that a larger board comprising of persons with diverse interests, experience, and skills can contribute more to its effectiveness. In the same vein, resource dependency theory maintains that larger boards signify involvement of more resourceful members from environmentally diverse settings, that would provide diverse opinions, contribute to wider deliberations resulting to a better decision that would enhance its performance and monitoring functions. On the other hand, the results of MSOW, BGD, and BIND governance variables failed to mitigate earnings management practices. Thus, they cannot strongly support agency theory of minimising information asymmetry and agency cost.

Consequently, resource dependency theory argues that gender diversity and board independence provide the board of directors with more human capital sourced from outside. It is therefore anticipated that their rich expertise and technical knowledge would be useful as part of their firm monitoring roles, thereby contributing towards effective financial reporting process. The result of this study provides a different outcome, possibly when tested in different settings or outcomes, which would then provide significant results.

Accordingly, the result on MSOW did not support the agency theory that managers' interests would be aligned with shareholders should the managers be allowed to own an equity holding of a company. The aim is to minimise the moral hazard through alignment of interests. This sound unique and is a departure from most of the studies on MSOW that reported a negative relationship with earnings management due to their part ownership of the firm.

As a whole, the results of the mentioned governance variables failed to provide sufficient support for agency theory in mitigating agency conflict and reducing monitoring cost. Further, there is no evidence in Nigerian non-financial listed firms suggesting that outside directors have independent opinions, a better sense of judgement, skills and knowledge which lead to mitigating earnings management advocated by the resource dependency theory. Perhaps, it might be related to the definition, proportion and appointment of non-executive directors required on the board by the Nigerian Code of Corporate Governance.

Thirdly, agency theory argues that audit committees provide an effective monitoring function that improves financial reporting process. Consequently, this study found support for agency theory and RD theory on the ability of audit committee independence (ACIND) to provide a monitoring role that leads to minimising agency cost. As a matter of fact, the board sources its members from a pool of experts and industrially experienced people.

Fourthly, there is evidence of mixed findings on the relationship between ACFE and ACSOW and earnings management, especially in the Western and developed economies. The results of the study indicate that audit committee financial expertise and audit committee share ownership do not provide sufficient monitoring and control of managers' opportunistic tendencies as suggested by the agency theory. This suggests that, when at least one member who has financial literacy on the audit committee is adjudged to provide enough expertise in monitoring managers' activities, it would not significantly improve the quality of the financial report. Similarly, prior literature suggests that when an audit committee member owns a proportional amount of firm equity, it would align his interest with the principal's interest, minimise asymmetric information, and motivate him to exert more effort in his monitoring role, which leads to decreased moral hazard. This study results could provide evidence of a reduction in asymmetric information between the agents and principals following the agents' ownership of the firm's shares, hence not supporting the agency theory perspective.

However, following the moderating role of leverage on CEO duality, it further supports and advances the stewardship theory perspective of viewing the CEO as an honest and trustworthy agent, who aligns his personal objective with the firm's objectives and values. As such, the CEO would do everything to avoid pursuing his personal interest. Hence, the result provides support that allowing the CEO to serve as the Chair of the board would help in mitigating earnings management practices. Therefore, the outcome of this study suggests that SEC Code 2003 requirement for CEO duality can still work on highly levered firms. Thus, CEO duality would enhance the earnings quality of those firms, which lends support to the stewardship theory.

### 1.6.2 Practical/Policy Implications

In practice, the findings of this study would be beneficial to shareholders, investors, financial analyst, management, and other stakeholders. The Nigeria Securities & Exchange Commission will benefit from this research through the findings of this study which revealed a number of shortcomings in the provision of the SEC Code of CG 2011. Firstly, SEC needs to review the process, requirement and qualification of non-executive board members as the present mode of appointing NED failed to provide the required monitoring role as expected.

The proliferation of industry based Codes of CG should be stopped. Instead, the various codes should be harmonised to allow for strict obervance and compliance to a standard Code. When that is done, it would enhance the observance and compliance level of such codes compared to the present practice with conflicting provisions. Furthermore, it would be easier to incorporate more professional opinions and consider global best practices in the event of subsequent review.



Similarly, the Financial Reporting Council of Nigeria (FRCN) and other professional accounting bodies should take advantage of the findings of this research, particularly on the need to further provide measures that would empower board's audit committee. The composition of the AC is adequate to have more members with accounting and financial expertise, as well as industry experience to enhance its oversight monitoring functions on the financial reporting process.

Professional accounting bodies like the Institute of Chartered Accountants of Nigeria (ICAN) and Association of National Accountants of Nigeria (ANAN) among others will find this study relevant and resourceful as it will reveal the effect of accounting knowledge of the board members on the financial reporting in the non-financial companies which has been neglected, until now. Also, the need for preparers of financial reports to have concern for investors and other stakeholders when reporting the financial position and result of operations of their companies to the capital market. Thus, much is expected from the accounting regulatory bodies.

## 1.7 Scope of the Study



This study used data from the non-financial firms listed on the Nigerian SEC. The study covered a period of five (5) years, from 2010-2014. The data was collected from the annual reports of Nigerian Stock Exchange to ensure accuracy and reliability of the data. Furthermore, the annual reports of the non-financial listed firms for the 5 year period were downloaded from the official webpage of NGSEC. There are several corporate bodies with a distinct code of corporate governance in Nigeria, like the Central Bank of Nigeria (CBN), National Insurance Commission (NAICOM), Nigerian Telecommunication Commission, licensed pension administrators, and the Nigerian electricity regulation commission. The study adopted the Nigerian SEC Code of CG for public companies (2011) and restricted the data collection and analysis to Nigerian non-financial listed firms between 2010 and 2014. However, the study is underpinned by agency, stewardship, and resource dependency theories that explained the variables of the study.

### 1.10 Organisation of the Thesis

This research consists of seven chapters. Chapter One, which is the first chapter has the introduction, problem statement and research questions. It also explains the objectives, scope and significance of the research. Chapter Two highlights the Nigerian financial regulatory framework. The review of related literature consists of the concept of financial reporting quality, earnings management, value relevance and corporate governance mechanisms. The underpinning theories were presented in Chapter Three. Next, Chapter Four discusses the conceptual framework, hypotheses formulation, and the methodological approach of the research. In Chapter Five, the research design, sources and method of data collection, techniques of data analysis and definition and measurement of the research variables were discussed. Chapter Six analysed and discussed the results of the statistical tests employed, the robustness test as well as the findings of the research. Finally, Chapter Seven provides the summary, conclusions and recommendations of the research.

# CHAPTER TWO

# NIGERIAN FINANCIAL REGULATORY BACKGROUND

## 2.1 Introduction

The British colonised Nigeria and had divided it into the North and South provinces and Lagos Colony for administrative convenience. The South interacted more with the British and accepted Western education, resulting in a rapidly developed modern economy compared to the North. Until recently, northern Nigeria which is predominantly Muslim rejected western education. These regional economic and educational differences persisted in Nigeria's economic and political life as well. Since independence in 1960, the country took up the direction and planning of economic growth and development (Nwanosike et al., 2016). It was in 1972 that the Indigenisation Decree was issued as the first Nigerian Enterprises Promotion Decree, which barred foreigners from investing in specified companies and reserved participation in certain trades to Nigerians. Thus, industries sprang up, and the economy experienced rapid growth. By 1980, Nigeria became the largest economy in Africa.

Nigeria has an estimated population of 186 milliom people (Population Census, 2006). The country became the 12th largest producer of petroleum products and ranked 33 in the world regarding GDP with a per capita GDP of US $2,400. The World Bank classified the Nigerian economy as a mixed economy, an emerging market and has already reached middle-income status, with well-developed financial, legal, communications, and transport sectors. At present, Nigeria is the second largest economy in Africa and the largest economy in the West African region. It is also home to the second largest stock exchange in Africa (Austin, 2008). Nigeria is the eighth largest exporter of oil and twelfth largest producer of petroleum in the world. Petroleum export accounts for 40% of GDP generating about 80% of Government earnings. Additionally, Nigeria developed its financial services sector, with a mixture of national and international banks, brokerage houses, insurance companies, private equity funds, and investment banks (Nwanesi, 2008).

Nonetheless, Nigeria is worth studying for several reasons. Firstly, Nigeria is the most populous African country and one of the world's oil exporters. Secondly, the Nigerian government has been undertaking giant steps aimed at improving its investment climate to make it more appealing for domestic and foreign investors. Thirdly, Nigeria has the highest market capitalisation in the African continent, is the 8$^{th}$ largest emerging market.

## 2.2 Develoment of Corporate Governance Code in Nigeria

The need for quality financial reporting attracted the attention of policy makers, regulatory agencies and accounting bodies in Nigeria. Consequently, efforts have been made over time at improving corporate governance to enhance earnings quality. Several legislations were in place. The Companies and Allied

Matters Act 1990 (CAMA) specifies the duties and responsibilities of the board, audit committee and requires companies to be audited by an independent auditor. Also, Section 334 subsections 2(a)–(i) of the Act requires the company annual reports to be presented at the annual general meeting (CAMA, 1990). The Investments and Securities Act (ISA) 1999 (as amended) places the responsibility of regulating and developing the capital market on the Securities and Exchange Commission (SEC). The Act further states that SEC should ensure the orderly conduct of the market and ensure transparency in operations of the market for the protection of the investing public.

The Banks and other Financial Institutions Act of 1991 was enacted to give the powers to register and regulate commercial banks, mortgage institutions and insurance companies in Nigeria to the Central Bank of Nigeria (CBN). The Nigerian Insurance Act (2003) is applicable for firms operating in the insurance sub-sector. These legislations were intended to strengthen corporate governance of the companies, but as (Sanda, Mikailu, & Garba, 2005)Sanda, Garba and Mikailu (2008) observed that the provisions had gaps and were not comprehensive enough to meet the governance challenges.

### 2.2.1 The Nigerian SEC Code of CG 2003

Moreover, before 2003 there was no established corporate governance Code in Nigeria. Instead, corporate organisations, particularly banks and insurance companies provided ethical codes for strict observance for the board, management and employees of the organisation. It was in 2003 that the Securities and Exchange Commission in Nigeria developed recommendations for the need of a Committee on the development of corporate governance code. The committee was formed in 2003 by SEC under the chairmanship of Atedo Peterside Committee, which developed a Code of the Best Practice for Public Companies in Nigeria. The Code was made to be voluntary and designed to establish good business practices and standards for directors, CEOs, Boards, and auditors of listed companies (Wilson, 2006).

The Code made provisions for improving corporate governance for all listed companies in Nigeria by providing suggestions on how to make the board, audit committee and external audit function more effective. The provisions among others are that the board should be composed of people of integrity and diverse experience, and the board size should be between 5-15 persons. Moreover, it is suggested that different people should hold the positions of chairman and chief executive, but in exceptional cases where the two (2) positions are combined, a non-executive director should be the vice-chairman and the board is to meet on quarterly basis. With this provision, the Code did not mandate the need for CEO duality. Accordingly, the composition of the board should be a mixture of executive directors (ED) and non-executive directors (NED). The service contract for the appointed NED should be for a period not exceeding three (3) years. Meanwhile, the entire board is responsible for the appointment of NED through a defined selection process.

The Code also prescribes that audit committees be established in line with CAMA, 1990 but should not have more than one (1) executive director with a NED as chairman, thus, rendering the audit committee not fully independent. It also requires the audit committee to meet at least three (3) times in a year. The Act also provides that shareholders holding more than 20% of the total issued share capital should have a representative on the board and a director should be appointed to represent interests of the minority shareholders. The Code was criticised on provisions relating to the appointment of a director to represent minority shareholders as vague and difficult to implement (Hamid, 2011). Given the voluntary application of the Code, its observance significantly affected its implementation. The low implementation was confirmed by a survey conducted by SEC which reported that less than 40% of the companies complied (CBN, 2006).

The Code also failed to take into account the development of the codes of corporate governance used by other advanced countries as the Sarbanes-Oxley Act 2002 in the US, and the New Combined Code of 2003 in the UK (Sanda et al., 2005). In response to some of the criticisms and to address some of the weaknesses, SEC had set up the Mahmoud Committee to review the 2003 Code of Corporate Governance which culminated in the issuance of Code of Corporate Governance in 2011 for all publically listed companies. Consequently, the revised Code retained most of the provisions but made changes in respect of the board composition, audit committee, diversity of the board, size and formation of the board risk committee. Also, some specific disclosure on directors and audit committee shareholdings, risk committee and the establishment of whistleblowing units among others are required.

### 2.2.2 The Nigerian SEC Code of CG 2011

The Nigerian Securities and Exchange Commission (NGSEC) Code of CG applies to all public entities whose securities are listed under the SEC. Any company seeking to raise funds from the market via the issuance of securities or is in the process to be listed, and all other public companies have to register with SEC. In Nigeria, observance of SEC CCG is through both voluntary and mandatory mechanisms as is the case in some countries (Wright, 1996).



It was in September 2008 that a committee was established by SEC to review the Code of Best Practices in CG in Nigeria (SEC, 2003). This was due to the lack of enforcement of the SEC, 2003 rules, making it ineffective and not complied with by the companies (World Bank, 2004). Further, the SEC Review Committee was mandated to recommend ways of improving the enforcement mechanisms required to make it more effective and enforceable. To promote CG and financial reporting in public companies, SEC had set up the department of financial reporting and CG in public companies. Also, a return form to be completed by quoted companies on a biannual basis was developed by the SEC as an instrument to monitor CG and the financial health of public companies.

The return covers general corporate information, financial reporting, CG issues, the AC and the external auditors. The reliability of the information provided must be attested through an undertaking by the chairperson of the company, financial controller, the managing director, chief internal auditor, company secretary and AC Chairman.

The revised Code, 2011 made provisions covering BODs' responsibilities, composition, duties, and structure, officers of the board comprising the Chairman, the Chief Executive Officer/Managing Director, Executive Directors, and NED. Other officers are independent directors. The revised Code also covers meetings, multiple directorships, family and interlocking directorship, appointment, remuneration, tenure and director's re-election. The Code prescribed that the board should have at least one (1) "independent director" which is defined as a director that has no other business with the company other than the remuneration that he receives as a director. It also stipulates that the names of the independent directors be disclosed in the companies' annual reports. The CG, (2011, Sec.4.1, p.9) made provisions that are considered to be relevant to this study such as:

> *"The Board of Directors should be of a sufficient size relative to the scale and complexity of the company's operation, in addition to ensuring diversity of experience without comprising independence, compatibility, integrity and availability to attend meetings; (ii) The membership of the Board should not be less than five; and (iii) should be a mixture of executive and non-executive director, headed by a Chairman, who should be a non-*

> *executive director. The NED should constitute the majority of the Board membership. Moreover, at least one (1) of NED should be an independent director; (iv) Board members should possess relevant core competence and entrepreneurial spirit. Members are required to have a record of tangible achievement and should be knowledgeable in the Board matters; (v) the members should possess a sense of accountability and integrity and be committed to the task of good CG; (vi) the board should also be independent of management to enable it to carry out its oversight function in an objective and effective manner; others include (vii) the position of the Chief Executive Officer and Chairman of the Board shall be separated and held by different individuals to avoid over-concentration of power in one person which may take away from the board the required checks and balances in the discharge of its duties; (viii) to safeguard the independence of the Board and not more than two (2) family members at the same time are to sit on the Board".*

Also, the Code made provisions aimed at strengthening internal control mechanisms through the AC. Thus, AC should be established by Section 359 (3) and (4) of Companies and Allied Matters Act (CAMA) Cap. C20 LFN 2004 which should be constituted in a stipulated manner. Further, at least one financially literate board member with knowledge of accounting or financial management should be on the audit committee. The minimum meeting requirements for AC is four (4) times in one year. The AC is vested with the responsibility of assisting the Board in its oversight functions and integrity of the company's financial statements.

The protection of shareholder's rights and interests shall be guaranteed when companies ensure transparency and adequate disclosure. In this respect, the SEC Code 2011 urges companies to provide adequate disclosure in their reports and make it publically available for all stakeholders. Apart from the statutory requirements of CAMA, the BODs of each company ought to guarantee that the company's annual report incorporates a CG report that is passed on to stakeholders, contains unambiguous information on the quality of the company's CG structures, practices, and policies. It is also expected of boards and management of companies to ensure adherence and compliance with the SEC Code of CG. Compliance with the code will strongly assist in ensuring a sound management structure that will eventually result in enhancing quality financial reporting of the companies.

Consequently, three statutory BoDs are shouldered with the responsibility of regulating accounting and financial reporting in Nigeria, which is: Corporate Affairs Commission (CAC), Nigeria Stock Exchange (NSE), SEC and Nigerian Financial Reporting Council (NFRC). Corporate Affairs Commission (CAC) is vested with the responsibility of supervising and registering company formation, management, and winding up. On the other hand, SEC handles regulating the capital market while the NSE is charged with the responsibility of ensuring compliance with the listing rules and reporting requirements for the quoted firms. The Financial Reporting Council of Nigeria which replaced the Nigerian Accounting Standard Board (NASB) in 2011, is vested with the responsibility for developing and publishing financial/accounting reporting standards to be observed by public companies in the preparation of financial statements.

The general requirements for the preparation of financial statements by firms in Nigeria are contained in the provisions of the CAMA Cap. C20 LFN 2004, which requires directors of public companies to prepare annual accounts each year. Section 334 (2) (a-j) states the mandatory disclosure requirements that include a statement of the accounting policies, final accounts, notes on the accounts, the auditors' reports, and the directors' report. For this reason, good CG requires effective oversight by regulators who should also be the custodians and promoters of good CG in Nigeria. The management of public companies should also ensure strict compliance with the code of CG for good governance.

The inclusion of one executive director on audit committees by SEC Code 2003 was removed, and audit committee functions expanded beyond the statutory duties. Also provided in the Revised Code is the provision for the rotation of audit firm/engagement partner after a period of ten (10) years. Most of these new arrangements conform with the Sarbanes-Oxley Act 2002 enacted in the USA. Despite the improvements in the current code, some of the criticisms of the past have not been rectified. Compliance to the code remains voluntary as the code is not a rigid set of rules for companies (SEC, 2011a). While the code requires that an audit committee should comprise of at least one financially literate member, it is not compulsory for the name of other such member be disclosed in annual reports as prescribed in the Sarbanes-Oxley Act. Similarly, the revised 2011 Code disallowed more than two (2) family members to sit on the same Board. Membership of two (2) or more companies was discouraged by the new Code. Where such cross-membership creates a conflict of interest by the competing companies, it must not be allowed. The aim is to safeguard the independence and above all the integrity of the boards.

Following the criticisms of the enforcement mechanism of SEC Code, some sectors of the economy developed their individual corporate governance codes. As a result, similar sections of the SEC Code contradicts related parts of those sectoral Codes. It further provides for the observance of a stringent provision of corporate governance Code, where a conflict arises from the application of the Code and provisions of any other Code about a company covered by the two Codes. Thus, the Code that makes stricter provisions shall apply (SEC, 2011). The implication is that other codes like the NIC Code of corporate governance for insurance companies shall apply.



### 2.2.3 The Central Bank of Nigeria Code of CG, 2014

The Central Bank of Nigeria (CBN) is the apex bank that is responsible for the fiscal and monetary policies in Nigeria. It also jointly regulates all financial institutions in the country. In line with the global trend on the establishment and review of corporate governance practices, corporate organisations individually made provisions for Codes as a guide for ethical conduct meant for the board, management and employees. The multiplicity and application of individual ethical Codes gave rise to an effort towards harmonisation of these Codes into a uniform corporate governance Code. Consequently, the CBN issued the code of corporate governance for banks in Nigeria in 2006. The aim is to provide a unified ethical Code and to correct some of the deficiencies found in the operations of banks in past years and establish governance practices for sound banking that promotes transparency in financial reporting. The Code covered provisions in the following main areas: equity ownership, organisational structure, board performance, board composition, audit committee, quality management and disclosure requirements and the role of external auditors.

A revised CBN code of corporate governance was introduced on October 1, 2014. The Code was made mandatory for banks and other financial institutions in Nigeria. It aims to be aligned with current realities and global best practices in an effort to eliminate perceived ambiguities and to strengthen good governance practices. Specifically, the code provides for a minimum of five (5) and a maximum of 20 members in terms of board size, while the board should consist of executive and non-executive directors. The majority of the board members should be NED with at least two (2) independent NEDs as opposed to one INED in SEC Code. The code rejects CEO duality at both the parent and subsidiary company levels. It further disregards any arrangement for executive vice-chairman on the Board of any bank. Also, the CBN 2014 Code introduced whistleblowing unit/protection and emphasised robustness in disclosure and transparent conduct of the board and its committees. Board committees are to be headed by non-executive directors to allow for more independent opinion and deliberations. On the diversity of the board, the CBN Code requires the board to recognise gender diversity in its composition.

### 2.2.4 Industry Based Code of Corporate Governance

While these changes are to take effect and strengthen corporate governance practices, industries within the economy began to set specific corporate governance codes. For instance, the banking sector has a Code of Corporate Governance issued by the Central Bank of Nigeria in 2006 and amended in 2014. Also, the National Insurance Commission (NAICOM) issued its Code of Corporate Governance guidelines in 2009. The Code is to guide the operators in the insurance industry. Besides that, in 2014, the Nigerian Communication Commission (NCC) issued its Code of Corporate Governance for operators in the ICT sector.



Similarly, in 2004, the federal government of Nigeria enacted the Pension Reform Act (2004) that transferred pension administration from public to private companies. As a result, in 2008, the licensed pension administrators established a Code of Corporate Governance for operators in the sector through the National Pension Commission exclusively for pension fund administrators. The proliferation of industry Codes within the Nigerian economy coupled with poor enforcement mechanisms by the SEC resulted in non-compliance of the SEC CCG, which incapacitated its operation. Consequently, in 2011 the Financial Reporting Council of Nigeria (FRCN) was established by the federal government that replaced the Nigerian Accounting Standard Board. The scope of the Council responsibilities drew the attaention of the financial/capital market operators, the professionals and investors to agitate for harmonisation of industry based Codes for observance and compliance by all sectors of the economy.

Table 2.1
*Summary of Board Attributes in Corpoate Governance Codes in Nigeria*

| Board Dynamics | SEC Code (2011) | CBN Code (2014) | NAICOM Code (2009) | PENCOM Code (2008) | NCC Code (2014) |
|---|---|---|---|---|---|
| Size | Min. =5<br>Max.= nil | Min.=nil<br>Max. =20 | Min=7<br>Max=15 | Min=nil<br>Max=nil | Depend on size |
| Composition | Mixed | More Non-Executive Dir. | Exec. Dir. < = 40% | Equal Ratio of Exc. & Non-Exc.Dir. | More Non-Executive Dir |
| CEO Duality | Yes | Yes | Yes | Yes | Yes |
| Independent Director | ≥1 | ≥2 | ≥1 | ≥1 | ≥1, Larger Companies= ≥2 |
| Gender Diversity | Yes | Yes | No | No | Yes |
| Committees | Audit, Remuneration, Governance & Risk | Audit, Credit, Risk, Finance & General Purpose | Audit and Compliance, Finance & General Purpose, investment, Enterprise Risk Management & Establishment and Governance | Audit, Investment Strategy, Risk Managemen t & Nomination | The Audit, Risk Management. |
| Expected Compliance | Voluntary | Compulsory | Voluntary | Compulsory | Voluntary |

Table 2.1 indicates the selected board attributes in the industry based on corporate governance codes. The SEC 2011 covers all public listed companies in Nigeria, the CBN Code 2014 (as amended) covers all money deposit banks, licensed finance houses, mortgage institutions and microfinance banks, while

the NAICOM Code 2009 only covers the insurance companies operating in Nigeria.

### 2.2.5 The Financial Reporting Council of Nigeria Act, 2011

Given the multiplicity of measurements and methods applicable to accounting data, some accounting standards are necessary to maintain the integrity of data and to facilitate comparisons between business entities. Accounting standards are rules or a set of standards that prescribes the methods by which accounts should be prepared and presented. These regulations are issued by either national or international/professional accounting bodies, one of which is the International Financial Reporting Standards (IFRS). Financial Reporting Council of Nigeria Act, No. 6, 2011, which repeals the Nigerian Accounting Standard Board Act. 22. 2003 (NASB) was enacted to develop and publish financial reporting standards and accounting standards as a guide in the preparation of financial statement of public interest entities.

The FRCN Act, 2011 Section 49 provides for the establishment of the Directorate of Corporate Governance. Further, Section 50 of the same Act outlines the objectives of the Directorate which is to develop principles and practices and to promote the maximum acceptable standards of corporate governance. It is also to establish links with other regional and international institutions engaged in promoting good governance practices. The FRCN Act, 2011, No. 6, Sec. 8, PA63 spells out its functions as follows:

> *"The FRCN shall adopt and keep up-to-date accounting and financial reporting standards, and ensure consistency with International Financial Reporting Standards. It will receive copies of all qualified reports together with detailed explanations for such qualifications from auditors of the financial statements within the first 30 days from the date of such qualification. Also, the Council shall state clearly in the financial reporting standards, the minimum requirements for recognition, measurement, presentation and disclosure of annual financial statements, group annual financial statements. Further, it should specify other financial reports that every company shall comply with in the preparation of financial statements and reports".*

Despite the requirements for the development of the CG code, which is targeted to harmonise all the operational codes, FRCN is yet to publish its code of CG. Presently, SEC Code 2011 remains as the only applicable Code that seeks to provide a comprehensive guide for CG practices in Nigeria. However, the Financial Reporting Council of Nigeria Act provisions is hoped to assist significantly in ensuring quality financial reporting as well as harmonising CG practices of firms in Nigeria.

## 2.3 Corporate Governance Regulatory Framework in Malaysia

### 2.3.1 The Companies Act 1965

The Companies Act (CA) 1965 plays a major role in ensuring better corporate governance for Malaysia. The CA 1965 mimics the United Kingdom (UK) Companies Act 1948 and the Australian Uniformed Companies Act 1961. The major feature of CA 1965 includes pre-incorporation, incorporation, operation and duties of companies and their directors, as well as the rights and obligations of shareholders and directors. The CA 1965 also regulates the registration of companies under the Ministry of Domestic Trade, Cooperatives and Consumerism. The CA 1965 sets the legal foundation on which companies are shaped, activated and administered. Since its enactment in 1965, the CA 1965 had undergone various amendments, the most recent being the Companies (Amendment) Act 2007.

### 2.3.2 The Securities Industry Act 1983

The Securities Industry Act (SIA) 1983 and the Securities Commission Act 1983 (SCA) also play a vital role in ensuring better corporate governance practices in Malaysia. The SIA 1983 and SCA 1983 include provisions such as protecting shareholder rights, disclosing substantial shareholding to the Stock Exchange of Malaysia, protecting investor's interests, regulating the operations of dealers, and prohibiting artificial trading and market chains. Following the Asian financial crisis in 1997, the Malaysian government took some steps in reforming the corporate sector. By 1998, the government and private sector worked towards improving the corporate law that would enhance good corporate governance practices in the country. In 1999, a high-level financial committee on corporate governance was formed under the Ministry of Finance.

The committee's responsibility was to review the corporate framework to improve the level of CG in the country. The committee observed serious limitations in the transparency and disclosure requirements, corporate monitoring responsibilities, and accountability of the company directors including the rights of minority shareholders (Azizah, Abidin, & Ahmad, 2007). The Malaysian government and the regulatory bodies have promulgated various reforms and notifications to existing laws to ensure good corporate governance practices by the public listed companies. These includes the Securities Commission Act 1993 (SCA), Securities Commission (Amended) Act 2000, Securities Industry Act 1983 (SIA), Securities Industry (Compliance with Approved Accounting Standards) Regulations 1999, The Malaysian Code on Takeovers and Mergers 1998, and Companies (Amendment) Act 2007 (Tie, 2003).

A remarkable feature in the Malaysian corporate governance landscape is the close links to large publicly-listed firms with the government and politicians (Gomez, 2014). The relationship between large companies and government often results in politically-linked firms having exclusive arrangements with state-owned companies and enjoy preferential access to major government contracts and loans (Wahab, How, & Verhoeven, 2007; Gomez, 2014). The rise of these politically linked firms is the result of the country's New Economic Policy of 1970 designed to help indigenous Malaysians.

### 2.3.3 Bursa Malaysia

Malaysia has adopted an effective corporate governance mechanism with the aim to build a strong corporate environment. In 2001, it established the Bursa Malaysia (BM). Bursa Malaysia (BM) listing requirements have also played a major role in efforts to enhance corporate governance. These revised listing requirements took effect on 30 June 2001 making the Malaysian Code of Corporate Governance (MCCG) reporting requirements mandatory. In Malaysia, listed companies are obliged to comply with the listing requirements of BM which monitor publicly listed companies through monitoring their announcements, market trading policy, the media in general and an internal review of documents furnished (World Bank, 2005).

Similarly, the publicly listed company (PLC) is required to publish quarterly financial statements within two (2) months after the end of each financial quarter and its annual audited accounts, auditors and directors report within four (4) months after the end of each accounting year including its balance sheet, income statement and explanatory notes. Bursa Malaysia Securities Berhad (BMSB) had launched the Best Practices in Corporate Disclosure (BPCD) in July 2004 with the aim to enhance the standards of corporate governance for Malaysian publicly listed companies. The intentions of the BPCD are to aid in building and maintaining corporate credibility and investor's confidence in Malaysia's capital markets (BM, 2006). Under the BM listings requirements, all listed companies are required to disclose to the public all factual information that is essential for knowledgeable investing. In this regard, reasonable steps should be taken to ensure that every investor has equal access to information.

### 2.3.4 The Malaysian Code 2000

The Malaysian Code on Corporate Governance (MCCG) introduced in 2000, contains principles and best practices in corporate governance. The aim of the MCCG is to encourage transparency and disclosure through the provision of relevant information to investors. It is also a guideline for the board of directors on how to discharge their rights and responsibilities (Jaggi & Yee, 2000). The MCCG principles for corporate governance consist of four (4) main parts including board of directors, the director's remuneration, shareholders, and audit and accountability. All publicly listed firms on the BM are encouraged to comply with the corporate governance guidelines issued by the MCCG.



The MCCG sets out principles and best practice on structures and processes to achieve the governance framework. MCCG consists of three (3) parts. The first part outlines the four (4) factors that listed companies are required to disclose in their annual reports. These four factors indicate whether the companies have good corporate governance mechanisms in place. Along with the items to be disclosed are the size of the board, remuneration of the board and the internal control systems. Accordingly, the changes were made to support more responsible, and transparent management in line with international best practice.

### 2.3.5 The Malaysian Code 2007 and 2012

The revised version of the Malaysian Code of Corportae Governance (MCCG) was released in 2007. The MCCG (2007) represents the continued collaborative efforts between the Government and industry. Significant changes to the revised Code aims to strengthen the roles of the board of directors and audit committees, and to ensure that both the board and audit committees effectively discharge their responsibilities. The changes to the Code states the role of the nominating committee and criteria for directors' appointment. On the audit committees, the revised Code requires the audit committee to comprise at least three (3) members (all must be non-executive directors), a majority of whom are independent.

The Code also recommends for all audit committee members to be financially literate with at least one (1) member being a member of an accounting association or body. Consequently, the Code has been revised in 2012, both aim to strengthen the role of audit committees in the financial reporting process to assist them in the effective discharge of their duties. The introduction and revised version of the Code has a positive impact on corporate governance practices in the Malaysian corporate sector.

The MCCG 2012, amended the 2007 Code, it sets out the broader guide and principles with explicit recommendations on structures and processes expected of companies to adopt in establishing good corporate governance. The MCCG

2012, Code promotes the implementation of standards beyond the minimum set regulation. Although, the MCCG 2012 remains voluntary, however, listed companies are to report in their annual reports compliance with the Code. The focus of the revised code is on explaining the board of directors' role in providing leadership, improving board effectiveness, strengthening its composition in addition to reinforcing its independence. Furthermore, the MC 2012 encourages listed companies to ensure corporate disclosure policies. On the whole, Rachagan (2010) documents that Malaysia seems dedicated to promoting the development of sound corporate governance systems and practices.

## 2.4 Corporate Governance Regulatory Framework in Australia

The corporate governance regulatory framework in Australia consists of legislation, Australian Securities Exchange Listing Rules (ASX), accounting standards and Australian Stock Exchange Corporate Governance Council. The Australia's corporate governance regulatory framework aims to ensure greater disclosure, accountability of directors and involvement of shareholders. The framework is based on a mix of regulations, 'comply or explain' Guidelines issued by the ASX Corporate Governance Council and advisory guidelines. The guidance requires all listed companies in Australia to disclose the central corporate governance practices the company has in place for the year in its annual report. In addition, the guidance requires companies to state the existence of an audit committee in the annual report. Also, companies are required to disclose specific information to the market immediately.

### 2.4.1 Australian Corporations Act 2001

Australian firms are regulated under the Australian Corporations Act 2001 (Corporations Act). The Corporations Act is the principal legislation regulating companies. The Act is broader in its coverage and includes the framework surrounding the information of companies as well as duties of the directors. The Corporations Act 2001 also requires companies to prepare their annual financial report using applicable accounting standards. Sanctions for breaches of the Corporations Act involve fines and, in some cases, imprisonment. The provisions of the Corporations Act relating to disclosure have strengthened over time, and in particular, disclosure requirements have increased to develop transparency and accountability. The Corporations Act also provides shareholders with authority to elect directors. For example, under Section 203D, directors may be removed by an ordinary resolution of the company, and this resolution needs to be passed by a five percent vote of the shareholders in the AGM or one hundred shareholders under Section 249N. The Corporations Act provides a statutory basis for the formation of private and public companies, corporate regulation and the regulation of the securities and futures industries.

For listed companies, the Corporations Act regulates disclosure through the remuneration report and voting on remuneration. On executive remuneration, the Corporations Act has provisions relating to the role, responsibilities and structure of boards, termination payments, disclosure (through the remuneration report) and voting on remuneration. The Corporations Act also requires companies to prepare their annual financial report, including the remuneration report, using applicable accounting standards.

### 2.4.2 Australian Corporate Governance Principles

Under Section 769 of the Corporations Act, the ASX develops or adopts listing rules in the interests of the public thus making the ASX part of the regulatory regime within which listed firms discloses required financial information. The form and nature of corporate disclosure of ASX are prescribed through listing rules with a continuous disclosure regime backed by the Corporations Act. Specifically, The ASX Corporate Governance Council developed industry-wide corporate governance guidelines for Australian listed companies in March 2003. These guidelines were one of the first regulatory attempts to restore investor confidence after a series of corporate failures in Australia and overseas. The ASX Corporate Governance Council developed ten principles believed to constitute good corporate governance (ASX Corporate Governance Council 2003). In addition to the ten best practice corporate governance principles, the ASX Corporate Governance Council had also developed supporting recommendations. The best practice recommendations cover corporate governance disclosures, director's expertise, the link between executive pay and company results and whether the board's performance is evaluated. ASX

Corporate Governance Council issued the revised version (i.e. second edition) of the corporate governance guideline in 2007.

The ASX recommendations serve as reference points on board and management accountability and represent a major enhancement of corporate accountability and practice in Australia (Thomson & Jain, 2006). The recommendations are consistent with the objective of enhancing accountability, highlighting the Council's drive for greater emphasis on financial reporting disclosure (ASX, 2003). However, as is the case for Malaysia, compliance with the Code's Principles of CG Recommendations 2003 remain voluntary. Also, the objective of ASX CGC Principles focus on the disclosures in the annual reports. For example, Principle 1 requires companies to disclose the roles and responsibilities of their boards and management. The aim is to enable the board to provide strategic guidance, clarify the roles and responsibilities of respective members of the board and executives to facilitate accountability to the company and its shareholders. In addition, it is to ensure that no single person has unlimited powers.

Further, the requirement for board composition, size and commitment to adequately discharge its responsibilities and duties are provided in Principle 2. From the perspective of the stakeholder theory, Principle 3 requires companies to consider legal obligations and the interests of stakeholders (shareholders, employees, business partners, creditors, consumers, environment) and the wider community of their operation. Timely and equal access to all information including its financial position, performance, ownership and governance as well as company announcements need to be clearly provided. Furthermore, shareholders' rights and exercise of those rights are required to be respected by all listed companies. Australian listed companies are required to establish and disclose how they apply the principles in their company. One significant section of the ASX rules is the requirement for companies to make available information on compliance with all the ten principles. In the event of departures from any of the principles, explanations should be provided in the CG section of the company's annual report. Therefore, Australia corporate governance initiatives had brought strong disclosure with increased accountability of directors as well as the involvement of shareholders. In the context of the above discussions, it is clear that there are major differences between the corporate governance principles and regulations enacted in Nigeria, Malaysia and Australia.

Table 2.2 explains the summary of the main differences of corporate governance principles and regulations enacted in Nigeria, Malaysia and Australia. While there are similarities in the legal framework, perhaps due to their colonial orientations, they however differ in their governance Codes particularly on disclosure provisions, and shareholder rights and protection. The difference might also be the consequence of their development, socio-political and economic factors attributable to institutional differences.

Table 2.2

*Differences of corporate governance in Nigeria, Malaysia and Australia*

| **Corporate governance Code/ Principles** | **Nigeria** | **Malaysia** | **Australia** |
|---|---|---|---|
| Stage of Development | Emerging Country | Developing Country | Developed Country |
| Laws, Regulations and Rules on corporate Governance | The companies and Allied Matters Act 1990 | Companies Act of 1965 | Australian Corporations Act 2001 |
| Existence of corporate governance code | Yes. Enacted in 2003, Revised in 2011. | Yes. Enacted in 2000 | Yes. Enacted in 2003 |
| Policymaking, regulating, supervising, and enforcing authorities | Securities & Exchange Commission Act 1993, CAMA (2004) | Securities Commission Companies Commission of Malaysia Bursa Malaysia Berhad | Commonwealth authorities and companies (CAC bodies) |
| The existence of an agency or body that coordinates Corporate Governance policies within government | No | Yes | Yes |
| The existence of 'Special/Tribunal Courts' to litigate or challenge matters related to Corporate Governance | No | Yes. Commercial Division of the High Court; Sessions | Yes. The High Court of Australia |
| The existence of a body that is empowered to mitigate or arbitrate disputes matters related to Corporate Governance | Yes. The Securities & Exchange Commission Act 1993 | No | No |
| Non-profit institutions that promote better Corporate Governance practices | Yes, Central Bank of Nigeria(CBN), Nigerial Insurance Commission (NAICOM), National Pension Commission (Pencom), Securities and Exchange Commission (SEC) | Malaysian Institute of Integrity (MII Malaysian Institute of Corporate Governance (MICG) | Australian Institute of Company Directors Australian Council of Super Investor Australian Securities and Investment Commission |
| Shareholder Information Listed companies require to provide | Annual Reports & Quarterly financial statements | Annual Reports & Quarterly financial statements | Annual reports Quarterly financial statements |

## 2.5 Summary of the Chapter

This chapter discusses the development of corporate governance in Nigeria, Malaysia and Australia and their institutional settings. The discussions are based on the comparison between the three (3) different countries which indicate that the three (3) countries have different institutional settings under which listed firms are regulated. The next chapter will review the previous literature relating to corporate governance characteristics and quality of financial reporting.

# CHAPTER THREE
# LITERATURE REVIEW

## 1.1 Introduction

This chapter reviews and discusses prior studies in financial reporting, CG, firm debt structure and techniques of measuring FRQ. The study also presents previous studies on various CG attributes, debt structure, the AC characteristics, and FRQ. A review of studies on the AC characteristics and corporate CS relationships with FRQ are made. Similarly, the literature on corporate CS (leverage) as a moderating variable is discussed and presented. In the end, a general review and summary of literature is provided.

## 3.2 Financial Reporting Quality

Published annual reports are found to be the primary source of information for investors, particularly the shareholders. The annual reports are regarded as the source of corporate information. Investors and stakeholders consider firm's performance through its financial report. The quality of the report depends on its reliability that translates into investment decision (Zalewska, 2014). Thus, this emphasises the need to provide relevant information, which is crucial for efficient markets, the absence of which Zalewska (2014) argued encouraged market manipulation. The annual financial report is therefore a process of communicating company's information to stakeholders on the activities of the company over a particular period, that enables stakeholders to make decisions.

In this regard, the financial information provided should allow users (potential investors, creditors) as capital providers make a decision because its quality and reliability matter a lot. Therefore, the objective of the financial report has always been to offer quality financial information relating to and useful for economic decisions (IASB, 2007).

Therefore. financial reporting quality refers to the extent that accounting information presented to users are free from misstatements and other unethical accounting and managerial practices. In addition, quality financial reports give both shareholders and other stakeholders the opportunity of understanding the financial statements thereby reducing information asymmetry. Similarly, judicious management of earnings became a subject matter for many years that affected the perceptions of regulators and financial analysts (Cohen et al., 2004). Thus, Gul, Yu, Fung, and Jaggi (2009) posit that maximisation of personal interest motivates managers to engage in influencing earnings which in turn influences informativeness of the earnings.

### 3.3 Measurement of Financial Reporting Quality

Financial reporting quality refers to the accuracy with which financial reporting expresses information about the company's operations and its expected cash flows, which inform equity investors. Thus, financial reporting aims to inform both present and potential investors in making rational investment decisions and in assessing the firm's expected cash flows. There are various measures of financial reporting quality in the litereture. Earnings quality is one way of assessing the concept of financial reporting quality. Other proxies grounded on reported earnings include earnings smoothing (Ronen & Sadan, 1975; Leuz, Nanda, & Wysocki, 2003; Francis et al., 2004), earnings persistence (Dechow & Dichev, 2002; Francis et al., 2005) and value relevance of earnings (Collins, Maydew & Weiss, 1997; Francis & Schipper, 1999).

### 3.3.1 The Earnings Quality

Earnings quality is regarded as earnings that correctly represent the proportion of earnings related to operating cash flows (McNichols, 2002). However, any manipulation of financial record is likely to manifest in discretionary accruals. Moreover, Kaplan (1985) argues that accruals following normal business transactions perhaps do not indicate any wrongdoing. However, the higher portion of discretionary accruals indicates higher earnings management that may relate to poor or low quality of earnings. It is believed that the value of a company largely depends on its reported earnings. As such, managers consider EM as a means to achieve earnings expectations for their company. Scholars tried to give meaning to EM as a means of conscious effort provided by GAAP to provide reported earnings desired by the reporting entity. It thus means managers within the confines of GAAP can manage earnings, perhaps in the interest of the shareholders. On the contrary, Schipper (1989) refers to EM as a deliberate interference in the process of financial reporting aimed at obtaining some private gain.

Reported earnings have been a matter of concern because managers use earnings management to hide the true position of the company and as such stakeholders are unable to distinguish the true earnings figure from the falsified one (Bashiruddin, 2011). Shareholders use reported earnings to estimate future returns and earnings has a relationship with stock returns (Lev, 1989; Beaver, 1998; Easton & Harris, 1991). This association between earnings and returns is known to be weak in the face of low-quality information provided about earnings (Schipper & Vincent, 2003).

On the other hand, Healy and Wahlen (1999), argue that EM is said to have occurred when managers decided to structure transactions that deliberately mislead stakeholders as a result of altering the financial reports targeted mainly at influencing results of operations that depend on the firm's reported earnings. Mulford and Comiskey (2002) also argue that EM is commonly labelled as account manipulation, or fraudulent reporting, abuse of materiality, swap and timing of adoption of mandatory accounting standards, voluntary accounting changes, and extreme conservative accounting. Despite differences in the exact meaning of EM, reported earnings indicated in the financial statements do not necessarily reflect the real economic and financial situation of the company. Therefore, from the perspective of agency theory, management's opportunistic behaviour could lead to earnings management (Healey & Wahlen, 1999). However, Beneish (2001) argues that a lack of consensus on the definition of

EM implies differences in the interpretations of empirical evidence in studies that seek to provide evidence of EM incentives.

### 3.3.2 Earnings Management

The discretionary accruals (DA) are made to identify distortions which are represented by earnings management as a result of imperfect measurement or application of GAAP rules (Dechow, Ge & Schrand 2010). Accordingly, Mulford and Comiskey (1996, p.360) argue that "earnings management is the deliberate alteration/manipulation of accounting results for the purpose of creating an altered impression of business performance." Besides, Healy and Wahlen (1999, p.368) assert that "when management use discretion in fashioning how and what financial reports should reflect, with the aim of misguiding stakeholders about the actual performance of the firm, on which they place so much reliance on, then earnings management took place". Thus, it is suggested that, in some cases the reported earnings of a firm do not necessarily reflect the real financial or economic value of the company.

Consequently, Dichev, Graham, Harvey, and Rajgopal (2013) interviewed Chief Financial Officers (CFO) and concluded that innate factors constitute about half of EQ determinants. Moreover, some firms manage earnings to misrepresent performance with sixty percent of EM relates to income-increasing, whereas the remaining forty percent refers to activities involving income-decreasing EM. The study is in contrast with prior studies on income-increasing EM motivations where income-increasing motivations are significantly high. The CFOs affirm that observers from outside the firm cannot identify well-managed earnings by mere observation. On the other hand, they suggest strict monitoring of strategic managers of the company to uncover such managed earnings. Furthermore, Dichev et al. (2013) maintain that despite the importance of the EQ concept in finance and accounting, inconsistencies still exist on how the measurement is defined.

Most frequently used accruals measurement models are based on a firm's reported earnings starting with Healy (1985) whose model uses the discretionary accrual model that looked at working capital accruals as its base. Subsequently, other researchers came up with some modifications to the initial work of Healy (1985). These modifications focused on decomposing total accruals into non-discretionary (NDA) and discretionary accruals (DA) components. Among the renowned studies on accruals quality are attributed to Jones (1991), Dechow et al. (1996), Dechow and Dichev (2002), and McNichols (2002). Consequently, Kothari, Leone, and Wasley (2005) introduced performance matching procedures that require subtracting DA estimates from Jones' (1991) model by matching industry and return on asset using control firms for the previous or current periods. This model's main purpose is to mitigate performance-related misspecification.

### 3.3.3 Earnings Management Motivations

The desire or justifications for managers' engagement in manipulation of earnings are classified into various categories that include: capital market/analysts' expectations, managers' contracts or compensations, debt covenant violations, and equity offerings which are discussed below.

#### 3.3.3.1 Capital Market Expectation

Usually, firm managers predict high financial performance and increased revenue and earnings from their operations geared towards meeting the analysts' targets or expectations. In an attempt to beat those expectations, managers would be under intense pressure to achieve the revenue expectations which would lead them to engage in EM activities. Consequently, such practices result in fraudulent revenue recognition. Magrath and Weld (2002) documented that improper EM and financial malpractices start from the involvement in EM techniques tilted principally towards earnings smoothness in order to satisfy both internal earnings forecasts and analysts' expectations. They argue that improper revenue recognition originating from either voluntary or forced restatements were among the reasons behind restatements cases filed with the US SEC between 1977 and 2000. However, if a firm misses the analyst's expectations, it is viewed as a failure. Thus, since managers have some EM techniques at their disposal, they tend to continue managing the earnings until it becomes persistent.

#### 3.2.3.2 Debt Covenant Violations

Debt contracts allow lenders to use accounting numbers in regulating activities of a company, by demanding particular performance achievements or for purposes of investment and other financial activities, impose some limitations on the firm's financing. Thus, if firms violate the lender's agreements/debt covenants, it may lead to lenders raising interest rates or requesting for repayment of the outstanding debt immediately. Therefore, to avoid such penalties, EM activity may usher in by increasing the firm's earnings to avoid violating the covenant (Abdelghany, 2005). Hence, in order not to breach debt agreements, firms that are highly indebted would resort to engaging into DA (income-increasing) which is further linked to financial distress (Messod, Daniel, Beneish & Press, 1995). Similarly, Dichev and Skinner (2002) found a significantly higher percentage of firms violating debt covenants, providing evidence of companies involved in income-increasing EM targeted at avoiding a default, which is consistent with avoiding covenant default.

#### 3.2.3.3 Managerial Contract/Compensation Agreements

A managerial contract or compensation agreement is an agreement managers entered into with the company. According to Jennifer and Gaver (1995), managers had engaged in earnings management to increase their bonuses. Also, Core, Holthausen, and Larcker (1999) documented that managers engage in altering reported earnings specifically to enhance the level of compensation due to them. It was also argued that firms with weak governance structures have higher agency problems. As a result, CEOs of those firms with higher agency problems earn greater compensations. This suggests that firms with higher agency problems record poor performance.

### 3.2.3.4 Equity Offerings

Equity offerings relate to equity sale at primary or secondary markets to insiders as well as outsiders (investors) to raise additional capital for the firm. Usually, at the time of equity offer to the public particularly at the Initial Public Offer (IPO) period, it is accompanied by detailed financial information about the status of the firm. The aim is to convince the investing public that the company offering its stock for sale is in a sound financial position including the level of leverage if otherwise; it should be stated. However, previous studies documented that managers tend to increase reported earnings during such security offerings. Thus, this had resulted in information asymmetry between the investors, owners and managers (Hughes, 1986; Datar, Feltham, & Hughes, 1991).

Further, Magnan and Cormier (1997), Roosenboom, Goot and Mertens (2003) and Aerts, Cormier and Magnan (2007) documented that firms deliberately increase their reported earnings during their year of incorporation, geared towards achieving IPO forecast. Arguing along the same line, Teoh, Welch and Wong (1998) provided evidence that companies which reported positive accruals spanning over a period of three (3) years recorded poor stock price performance in its first year of incorporation. Similarly, relationships between EM and post-issuance stock prices provided a more inexplicable behaviour. This could be found in previous studies (Teo, Weltch & Rao, 1998; Rangan, 1998) who examined EM during IPO and seasonal equity offerings. These studies provided evidence that the estimates made at initial issue indicate a negatively significant relationship between EM and subsequent returns and earnings performance. This therefore suggests that deliberate distortion of financial information or engagement in EM during security issuance leads to misrepresentation of firms' actual earnings, thereby misleading the investing public.

### 3.3.4 The Value Relevance of Earnings

Value relevance refers to the ability to summarise information contained in the financial statement that affects share value (Francis & Schipper, 1999). The relevant information should be able to influence and help users in evaluating the past, present and future events to make informed economic decisions. Thus, value relevance represents important attributes of information quality (Francis, LaFond, Olsson, & Schipper, 2005). Consequently, the larger the value relevance of earnings, the more beneficial it is for market participants when making investment decisions (Barth, Beaver, & Landsman, 1996). Hence, financial information is considered value relevant only when accounting numbers relate to current firm value. Thus, absence of an association between accounting numbers and firm value renders accounting information not value relevant, and thus financial reports are not able to fulfil one of its main objectives (Beisland, 2009). Accordingly, Francis and Schipper (1999) argue that for a financial statement to be value relevant it must contain the valuation model variables to help in predicting those variables. In contrast, Nilson (2003) views accounting information as value relevant only when financial statement becomes useful in equity valuation.

Therefore, the concern of value relevance research is not how accounting information is used in the valuation process. Rather, it focuses on how accounting information can explain variations in stock prices occurring over time and between firms. As such, the concept of value relevance can be seen from many perspectives. Barth, Beaver and Landsman (2001) state that value relevance research examines the association between accounting amounts and equity market values. Accordingly, Beaver (2002) documents that value relevance examines the association between a stock price and accounting variables. Furthermore, when earnings quality is high, it should equally be more value relevant. Previous research that examine the FRQ measure using value relevance of earnings (Myring & Shortridge, 2010; Leuz, Nanda, & Wysocki, 2003) relate earnings to stock prices or market returns. The association between earnings and stock market performance indicates that earnings are both relevant and reliable to investors (Barth et al., 1996). Similarly, Bao and Bao (2004), argue that if the quality of earnings is improved, the association between firm value and reported earnings should also improve. Therefore, if the quality of earnings decreases, then the association between firm value and reported earnings should also decrease.

### 3.3.5 The Disclosure Quality

Financial statements serve as the major communication link between firms and investors. Meanwhile, the capital market requires gradual financial reporting processes to increase investors' confidence (Shaw, 2006). The global financial scandals witnessed a few decades ago have resulted in the higher demand for more disclosure of financial and non-financial information (Ghofar & Saraswati, 2014). The separation of ownership and control that helps in the reduction of agency cost and information asymmetry provided a drive for good reporting pursuits. Thus, when an agent provides quality information to the principal, it decreases information asymmetry which would reduce conflict of interest leading to a reduction in managers' incentives to manage earnings (Davidson, Goodwin-Stewart, & Kent, 2005; Klein, 2002; Biao Xie, Davidson, DaDalt, Davidson Iii, & DaDalt, 2003). Disclosure quality is a monitoring mechanism that bridges the information gap between managers and shareholders (Bushman & Smith, 2001). Thus, controlling management performance would be difficult when shareholders are deprived of specific firm information.

According to Gibbins, Richardson and Waterhouse, (1990), disclosure quality refers to the release of qualitative or quantitative information, financial or non-financial dispersed through formal or informal processes. Such information dissemination could be mandatory or voluntary. Timely, comprehensive, accurate and transparent information are necessary to reduce asymmetric information and agency costs between agents and principals (Healy & Palepu, 2001). Therefore, financial statements disclose information about how company's resources have been managed. Nevertheless, an effective financial reporting process should not be restricted to financial information only; non-financial information is also necessary for informed investors' decisions (Johari, Saleh, Jaffar, & Hassan, 2008).

Financial information disclosure is categorised into mandatory and voluntary information disclosure. Where a particular rule or governance code requires public disclosure of sets of information, such information becomes mandatory for all firms to disclose. On the other hand, where managers have discretion on the nature and amount of information to be disclosed, such information becomes voluntary information disclosure. Consequently, both mandatory and voluntary financial information are considered as indicators of financial reporting quality.

Therefore, among the various FRQ measurements, this study adopted accruals quality measure proxy by earnings management due to the fact that accrual accounting provides better matching of revenues and expenses than cash accounting and is therefore expected to generate more value-relevant accounting earnings (Dechow et al., 1996; Ball & Shivakumar, 2005). In addition to their intended function, accruals provide managers with more accounting choices that managers can use to either convey private information to investors or opportunistically obtain private benefits (Healy, 1985; Mcnichols & Wilson, 1988). Although Jones (1991) and Modified Jones (1995) were widely used measures of EQ, critics of the Jones (1991) model (e.g. Xie, 2001) argue that the explanatory power of Jones model is low with about 10% variations in the accruals. Moreover, it uses an indirect approach to measure earnings quality (Wahlen, 1999; Schipper and Vincent, 2003; Francis et al., 2005). To overcome this, McNichols (2002) uses industry level pooled cross-sectional regressions with the total current accruals as the dependent variable and the cash flows in previous, current, and subsequent years as well as the changes in revenue and property, plant and equipment (PPE) values as independent variables. This provides a direct measure of firm's information environment generated from critical accounting data in the financial statements (Aboody et al., 2005).

Hence, this study uses a measure of accruals quality derived in McNichols (2002) as a proxy for FRQ to improve the comparability with previous studies. Furthermore, the McNichols (2002) measure of accruals quality was used to address limitations in the Jones (1991), modified Jones (1995) and Dechow and Dichev (2002) measures. In addition, the measure is based on the fact that accruals increase the informativeness of earnings by smoothing out temporary fluctuations in cash flows, which has been used extensively in the previous literature. Consequently, non-financial companies deal with sales/receivables, and accruals, McNochols (2002) model would be the most appropriate model for the study.

### 3.4 The Concept of Corporate Governance

Corporate governance (CG) is about structures and processes for the control and direction of companies. It concerns the board of directors, management relationships as well as shareholders and other stakeholders relationship, hence provides structures that monitor the performance of organisations. For this reason, corporate governance is seen as a mechanism that is used to lessen the differences between managers and stakeholders interests. Thus, corporate governance is used as a mechanism to reduce agency cost caused by the conflict of interest between owners and managers.



To guarantee good corporate governance, independent BoDs, an effective audit committee and sound internal control mechanism (internal audit) should be in place to provide effective monitoring and control of management activities. Shareholders and other stakeholders would put high confidence and trust on companies with good corporate governance practices. It is expected that good corporate governance should be able to motivate board members and managers with less monitoring, and pursue interests that are congruent with firms and shareholders interest.

On the other hand, Adegbite (2015) opined that poor corporate governance is a major factor that has given rise to the financial distress in the Nigerian banking industry, even after the banking sector reform in 2005. Managerial excesses, massive corruption in the public and private sectors and disregard for the rule of the law, corporate standards and regulations are major challenges hampering the successful inculcation of good corporate governance in Nigeria. Besides that, company's executives engage in gross misconduct due to ineffective or absence of control. By and large, investors are excluded from the governance structure (Usman & Yero, 2012).

Highly respected firms in Nigeria were involved in corporate frauds and other financial irregularities involving manipulation of financial statements, concealment of debts, insider trading, and overstatement of profit amongst others. These cases had prompted government intervention through the code of corporate governance for public listed firms (Lawal, Eweje, & Walton, 2016). The code acts as a control measure and to ensure prudence, accountability and transparency in the management of public companies. The Nigeria SEC mandates all public listed companies to observe and ensure compliance with the code of corporate governance. Further, the code is introduced to avoid complexity in the application of the code for companies that have industry specific CCG as in the case of banks, pension administrators, telecommunication and insurance companies. SEC ruled that, where a conflict of implementation between different codes exists, the code that provides for stricter application should be applied.

### 3.5 The Concept of Audit Committee

Board of directors established Audit Committees to assist in overseeing company's financial reporting process, as well as to ensure proper audit process of the company's annual statements of the account. AC serves as a board standing committee and forms part of the governing structure of a corporation. Also, it acts as a good projector of company's financial integrity (Rezaee, 2005). Similarly, Brennan and Solomon (2008) documented that the establishment of AC, which acts on behalf of the board, could improve the financial reporting process through the review of financial statements which enhance accountability.



Additionally, Fichtner (2010) documented that AC formation which originated from New York Stock Exchange (NYSE) is meant to improve accountability in financial reporting. Moreover, US Security and Exchange Commission recommends the appointment of external auditors by a special committee comprising of non-executive members of the board, as a result of fraud that involved Mckesson & Robbins Inc. in the late 1930s. Furthermore, Collier (1996) argued that before 1979, ACs were virtually non-existent, until around 1990s as a result of the Cadbury Committee report on 1992, which recommended the proper constitution of ACs, due to increasing demand for CG.

Consequently, the accounting scandals that engulfed many countries across the globe made AC a centre of struggle/ fight against misdemeanour in financial reporting. Thus, the United State (US) set up the Blue Ribbon Committee (BRC) whose report (Blue Ribbon Report, 1999) led to the promulgation of Sarbanes-Oxley Act, 2002 (SOX), for the US Securities and Exchange Commission, which prescribes a broad range of measures including requirements concerning ACs.

Similarly, several other corporate failures in the 1970s, late 1990s and early years of 2000s witnessed fraudulent financial practices that motivated regulators to focus attention on the formation of an independent AC. Subsequently, some countries either adopted or mimicked these rules regarding AC oversight functions. For example, Soliman and Ragab (2014) documented that in Egypt, mechanisms introduced to enhance transparency in financial reporting include Egyptian Accounting Standards and Code of CG (2005 and 2011). However, in Nigeria, the SEC drafted its CCG (2003, 2011), with provisions for the formation of the AC as a control mechanism in the financial reporting process. Certainly, many countries across Europe, Asia, and Africa, have mandated the establishment of ACs with independent majority members discharging their independent oversight functions of ensuring quality financial reporting. The AC's composition and functions vary from country to country. In the United Kingdom (UK) for instance, the AC is required to be composed of at least three members who are all expected to be wholly NED. In addition, at least one (1) of such member must have the relevant financial expertise, and the Committee should hold not less than three (3) meetings in any fiscal year.

In the US, the SEC recommends that AC should consist of independent directors, part of whose responsibility is the nomination of auditor's work. Besides that, every member of the AC must be independent and is equipped with financial literacy, including one (1) from amongst them who should be a financial management or accounting expert. Further, Australian SOX, 2002 requires that AC should comprise of a minimum of one (1) financial expert. On the other hand, in Nigeria, Section 30 of SEC (2011), provides for the establishment of the AC for all public listed companies in Nigeria. It thus states that:

> *"Every company is required under Section 359(3) and (4) of Companies and Allied Matters Act (CAMA) 2004 as amended, to establish an audit committee. It is the responsibility of the board to ensure an audit committee is constituted in the manner stipulated and can discharge its statutory duties and responsibilities effectively".*

Consequently, Section 359 (3) of CAMA requires listed company to establish an AC that consists of directors and representatives of shareholders on an equal basis but should be limited to six (6) members and the committee shall examine, make recommendations and present its report in the annual general meeting. Also, Section 30.1, 30.2 and 30.3 provide for additional requirements for the composition of the AC as follows:

*"At least one member should be financially literate; Members of the committee should have basic financial literacy and should be able to read financial statements. At least one member should have knowledge of accounting or financial management………".*

The issue of the AC has attracted a broad range of academic literature in recent times that requires investigating the role of governance on the AC. The primary responsibility of the AC is to monitor the financial reporting process and constrain any anticipated opportunistic tendencies of managers. AC is expected to provide the desired effects or goals of the affording quality financial report which strengthens confidence in the financial markets (BRC, 1999; Kryzanowski & Zhang, 2013). Initial studies on the AC focus mainly on the agency theory which considers AC as an important measure to mitigate the conflict of interest between shareholders and firm managers (agency conflict).



Pioneer studies on the AC concentrated on the determinants and formation of AC, and the influence of particular governance characteristics towards the formation of the AC (Collier, 1993; Willekens, Bauwhede, & Gaeremynck, 2004). Other studies tried to investigate and attempted to ascertain whether the formation of the AC is of any help towards improving governance and prudent accounting process in firms (Wild, 1994). Aside from the earlier studies, ACs are considered as an important mechanism aimed at strengthening the audit process. Also, prior studies that seek to understand how ACs perceived audit quality include Knapp (1991), Ismail et al., (2008), and Soliman & Ragab

(2014). Studies that examined investors' perception of the measure of AC effectiveness on quality financial reporting and financial markets include Farber (2005) who measured stock returns using cost of capital and debt financing. Meanwhile, Anderson, Mansi and Reeb (2004) proved a significant association between independent ACs and lower cost of debt financing. They all agree that the market relies on financial information that depends on the quality financial reporting.

Accordingly, the Nigerian SEC provides that AC members should have basic financial literacy, and be able to read financial statements with at least a literate financial member, having knowledge of accounting or financial management (*Section 30.2, 2011*). Similarly, previous studies argue that financial expertise is an attribute that a firm can choose to have for enhancing the effectiveness of its AC. Liu and Zhuang (2011) documented the influence of the AC on managers' decision to issue earnings forecast has a significant impact on analysts' forecast accuracy and dispersion. Similarly, Krishnain and Visvanathan (2008), Dhaliwal, Naiker and Navissi (2010), and Cheng, Dhaliwal, and Zhang, (2013) argue that firms with an accounting expert among the AC members promote accounting conservatism and display high accruals quality than firms without a financial/ accounting expert (AFEs).

In contrast, Cohen, Hoitash, Krishnamoorthy and Wright (2014) find that having a financial expert on the AC is not sufficient to monitor the process of financial reporting. They maintain that the financial reporting process would be adequately monitored by AC members that are both AFEs and industry experts, more than AFEs that are not industry experts. Consequently, they concluded that the restatement would likely decrease with AFEs and industry experts on the AC. Further, AFEs and industry expertise are also associated with lower DA, which all signify an effective monitoring process of financial reporting.

### 3.6 The Concept of Capital Structure

Capital Structure (CS) refers to the firm's financial structures that combine equity and debt capital maintained by a company. A CS may comprise of debt, equity or hybrid securities. The comparative ratio between equity and debt is referred to as leverage. Therefore, the financing needs of firms depend primarily on its financial structure. Specifically, Durand's (1952) study summarised three CS theories of net income, net operating income, and traditional compromise theory. Then, Modigliani and Miller's (1958) pioneer work on the relevance of CS was among the early studies that documented that the CS is irrelevant in determining performance and value of the firm. Once the capital market is fully active, CS and corporate value will not be associated. Also, the argument of this theory is based on the perfect market conditions, with the absence of bankruptcy and tax. Also, the theory maintains that debt and equity are substitutes, which means, there is no opportunity cost in between debt and equity usage as a source of capital.

However, Modigliani and Miller (MM) (1963) reported the inadequacies of their earlier model where tax is considered. This is because the interest payment is a tax subsidy on the debt which would lead a firm's value to increase in the event debt is traded with equity. They further argue that the entire firm's CS should compose of debt to take advantage of the interest payments that is tax deductible. The MM theory forms the basis of modern CS theory. Furthermore, economists made an extensive study of CS, paying attention to finding out factors which influence an optimal CS. They proposed theories including trade-off theory, agency theory, and signal theory to examine the relationship between CS and corporate value from various perspectives.

Lubatkin and Chatterjee (1992) supported the argument that a relationship exists between CS and firm performance. Even though Scott (1976) and Brigham and Gapenski (1996) agree that the MM model is valid, it should have incorporated bankruptcy costs that are proportionate to the level of firm's debt. Impliedly, the increase in the degree of debt will lead to a commensurate increase in bankruptcy costs. Additionally, if the debt is overvalued while equity is undervalued, the CS optimisation would not be achieved. Consequently, they maintain that optimisation of CS could be attained if the benefits enjoyed from the tax shelter result in an increase in the level of debt that equates the costs of bankruptcy. The advantage is that interest on the debt is an allowable deduction, while costs involved are considered as bankruptcy cost (Kim, 1978). Consequently, Part G Section 34.3 of SEC, 2011 mandates that annual reports of public companies in Nigeria contain information about CS of the companies. Therefore, the task before managers is identifying the best period of attaining the optimal CS and its maintenance. As such, if financing costs and weighted average costs of capital could be reduced, a firm's value and its performance would be increased. Also, two more theories evolved after the Modigliani and Miller that seek to address the firm's optimal CS. The first theory is the static trade-off theory that was developed by Kraus and Litzenberger (1973). The theory postulates that firms choose optimal structure through trading of the benefits and costs of the equity and debt respectively. They argue that employing either debt or equity to finance companies' operation each has its merits (tax benefits) and demerits (agency costs).

In contrast, Kayhan and Titman (2007) argue that, if achieving firm's optimal CS means trading off costs and debt benefits, there is a tendency for a firm's value and debt ratio to weaken. If it happens, deviating from the optimum will cost less. They maintain that CS tends to move along target ratios of debt that is consistent with the trade-off theories of CS. Among the prior studies supporting trade-off models and various extensions include Ju, Parrino, Poteshman, & Weisbach (2005), Hennessy & Whited (2005), Strebulaev (2007), Titman & Tsyplakov (2007), Tserlukevich (2008), Hennessy, Livdan, & Bruno (2010), and DeAngelo, DeAngelo, & Whited (2011).

The second theory that suggests a preference in the choice of CS mix is the pecking order theory. Myers (1984) argues that a firm chooses its CS based on the order of preference beginning with internal financing first, followed by debt and then equity financing without deviation. Besides that, Mazur (2007) argues that a firm's choice of capital lies in the following preference order: internal finance, debt, and then equity. Furthermore, most recent studies have shifted their research from the trade-off theory to the pecking order theory. Myers (1989) proposed a static trade-off theory by MM theory that considers bankruptcy costs and agency costs of debt. Accordingly, debt financing can help achieve tax avoidance that may contribute to the increase in costs and risks, as such if the amount of tax avoidance is larger than the cost of risks, the firms' increase in debt financing helps to achieve an optimal CS. Besides that, firms should avoid adding debt. Jensen and Meckling (1976) and Myers (1977) proposed the agency costs of debt and equity. They argue that the existence of the conflict between debtholders leads to agency costs of debt.

Meanwhile, a conflict between managers and shareholders result in agency costs of equity. For this reason, managers interested in achieving their targets may be in conflict with the firm's value. Due to this, shareholders may attempt to control managers' behaviour through monitoring. Hence, both the control and monitoring results in agency cost of equity. Similarly, creditors' investment in the firm attracts interest that is based on the firm's risk. Thus, managers may decide to transfer value from creditors to shareholders who need to be monitored and controlled. This would result in agency cost of debt. Therefore, transaction cost becomes necessary in a firm's CS decision. Mazur (2007b) argues that obtaining new external financing is associated with higher transaction cost compared with costs of obtaining internal financing.

Accordingly, Harford, Li, & Zhao (2006) using a sample of 1,123 US firms for the period 1997 to 2004, found that the association between corporate boards and leverage is positive only with stronger boards and negatively associated when long-term debts are employed. They further document that short-term debt is highly employed by low-growth firms than high-growth firms. Additionally, based on a similar study on a sample of six (6) petroleum companies in Nigeria, Felicia, Ikpefan, and Oladeji (2013) found a negative relationship between firm performance and leverage. The result suggests the use of equity financing as a way of financing companies in the petroleum industry.

However, their study of oil companies in Nigeria exhibited a shortcoming of sample size. Given the use of only six (6) samples size in an economy, the result could not be used to make generalisations and may not be applicable to all companies listed in Nigeria. Moreover, the findings corroborated Isola and Akanni (2010) and Olokoyo (2013) who documented that most Nigerian firms are financed by equity or a combination of short-term financing and owners' equity. Factors attributed to the choice of short-term rather than long-term financing include less developed bond market in addition to the lack of accessibility to long-term finances from the financial institutions that are marred with excessive interest rates and enormous collaterals.

### 3.7 Board Characteristics and Earnings Management

The Board of Directors is constituted and charged with the responsibility of overseeing the affairs and governance of a company as stated in its governing documents, the Bylaws, and shareholder agreements. Also, the provision of efficient CG lies with the BOD's composition, structure, resources, diligence, and authority of the entire board. Also, the working relationships with other stakeholders of the company provide an opportunity for monitoring, control, and general oversight functions that enable effective and efficient strategic policymaking and implementation for the entire company.



Accordingly, CG is a means of earning creditors' confidence about the safety of their investment and return (Shleifer & Vishny, 1997). One of the important responsibilities of BODs is providing independent oversight of management performance and accountability to shareholders. Effective discharge of those responsibilities influences the integrity of the financial accounting process (Dichev & Skinner, 2002). The literature on CG issues, specifically BoD's characteristics gain researchers attention more precisely, board composition, board size, Chief Executive Officer (CEO) duality, the tenure of the CEO and proportion of women directorship (Gender).

The SEC CCG (2011) provides that membership of the board should consist of at least five (5) comprising a mixture of executive and NED. It further provides that majority members should be NED, with at least one independent director. It therefore places only the minimum number of the board membership to five (5) without a maximum number, which allows for an enlarged board. Therefore, board composition measured as a proportion of NED to the executive directors; indirectly reflect the independent role of monitoring by the NED.

### 3.7.1 Board Independence and Earnings Management

Board independence is the level of presence of NED on the board. In this regard, by having a higher proportion of NED to the total number of board members, it is expected that lower incidences of EM will occur, which subsequently improves EQ. An independent non-executive director is appointed to serve on the BoD of a company for reasonable periods on the Board. The tenure of directors under the provisions of CAMA, 2004 is three (3) years subject to re-election at regular intervals of three (3) years. The nomination for re-election is subject to the outcome of the performance evaluation results. As an independent person, his appointment is to ensure that he has an independent view and is not internally driven.

Nevertheless, SEC (2011), as amended, requires every public company in Nigeria to have a majority of non-executive directors on their board. To support the existence of board independence, Firth, Fung, and Rui (2007) studied 5189 listed firms in China for the period between 1998 to 2003 using pooled regression. The study found that independent directors (ID) improve the EQ. Moreover, the study found an inverse relationship between independent NED and the extent of absolute DA. However, the study used few variables, and weak techniques in comparison to panel regression.

In contrast, Petra (2007) conducted a study on ID and earnings using 203 firms randomly selected from 1,120 firms listed on Forbes in the United States for four years from 1995 to 1999. The final observations of the study were 812 samples. The study found a positive and significant relationship between the proportion of outside ID on the boards and informativeness of earnings among other variables. The study also suffered some weakness as there was no framework for the selection of the firms.

On the contrary, Lo, Wang and Firth (2010) examined the percentage of ID and transfer price manipulation using 266 sample size obtained from firms listed on China's stock exchange, using cross-sectional regression. However, the findings showed that companies which have a high proportion of ID on its board has a low level of transfer price manipulation. The study suffered from little observation and the use of weak techniques of data analysis in arriving at its conclusion. Similarly, Rubin and Segal (2014) studied directors' reputation and board monitoring about EQ where the sample was drawn from S&P 1500 from 1996 to 2009 inclusive. A director's reputation indicates his monitoring skills, financial expertise, industry expertise, managerial experience and work experience as a director and officer of the firm. These monitoring skills and work experience give the director the required tools necessary for monitoring management activities effectively that would ensure high quality of company earnings. The study used regression analysis to arrive at the result where it was discovered that there is a positive impact of directors' reputation on monitoring quality and in turn FRQ. Also, EQ increases with the level of board monitoring. Nonetheless, the study did not disclose the number of observations and how it was derived. Also, the study could not display the result obtained against the variables for proper explanation.

Moreover, Klein (2002) examined the relationship between independent/non-executive (outside) directors and EM in the United States using samples from S&P 500 from 1992 to 1993. The study arrived at 692 firms as the final sample after considerating those firms with missing components that the study needed. The study utilised cross-sectional regression analysis, and it was established that a significant negative relationship exists between independent/non-executive (outside) directors and EM. However, the study lacks justification for the result. Also, a weak methodology is adopted simply because the use of panel regression is more reliable than OLS as suggested by Gujurati, (2004). However, prior studies also supported that a greater percentage of outside directors helps in reducing income increasing EM (Peasnell et al., 2005; Lo et al., 2010; Erena & Tehulu, 2012).

Hashim and Susela (2008) studied the relationship between quality of financial reported earnings and internal monitoring mechanisms. Using 280 sample size of non-financial firms listed on Bursa Malaysia’s Main Board for the year 2004 where OLS is used as the data analysis technique. The result shows no significant evidence on the relationship between the traditional functions of the board and EQ measured by quality accrual model. The study used performance variables as control variables without transformation that could give a different result if used as continuous variable in the model.

Dabor and Adeyemi (2009) examined the relationship between the credibility of financial statement and CG in Nigeria using a random sample of 20 firms out of the 208 listed firms. The result of the study indicates that the bigger the presence of NEDs on the firm's board as required by CAMA 2004, the higher the credibility of financial statements in addition to accountability enhancement. The study suffered some weaknesses as the sample size of 20 companies chosen from the 208 companies is considered small, making the results obtained difficult to generalise. For this reason, the study did not capture other CG proxies like board size, the frequency of board meeting, board financial expertise, AC size, the AC meeting, and AC financial expertise. Uadiale (2012) conducted a study on board composition and EM practices using a questionnaire survey. The study used cross-sectional analysis, and the result found that board composition with a greater proportion of outside directors reduces EM practices. Moreover, the number and corporate experience afford them the opportunity for effective monitoring and control of managers. The study also used primary data which could be biased, misleading and full of subjectivity. This is in addition to the fact that the study did not consider time as the time could alter the result of the study since the study is based on a one year period.

Kantudu and Samaila (2015) examined the effect of monitoring characteristics on FRQ of listed oil marketing firms in Nigeria between 2000 to 2011. The study used panel regression analysis to arrive at the result where the findings revealed that power separation between CEO and board chair, a greater percentage of NED and managerial ownership would lead to higher financial reporting quality. Thus, a significant proportion of independent NED's is a necessary control and monitoring mechanism for quality financial information. This is becauase NEDs are less tied to managerial influence, which enables them to monitor managers more efficiently. It will further enhance the confidence of shareholders whom they represent on the quality of the financial report presented to them. The study concentrates on two years only, which may not alter the result of the cross-sectional analysis. Therefore, there is a need for a longer period of at least four years and above.

Hashim and Devi (2010) argued that, unless the Board Chairman is independent, separating the role of the CEO with that of the Chairman would not inherently lead to the independence of the board. The study is conducted in Malaysia using regression analysis. The result shows a significant positive association between non-executive chairperson and EQ in Malaysian firms. Therefore, the findings support prior studies that document the presence of independent non-executive chairperson as a mechanism for enhancing the independence of the board as well as improving EQ. However, the study considered few variables which could have a consequence on the model of the study, as the lower the variables, the higher the chance of getting biased parameters.

In a study conducted by Khan and Kotishwar (2011), it was found that the ID or NED of the company monitors and controls the chairperson/chief executive. They also serve as a link between the external environment and provide an international perspective. In this regard, the study argued that NEDs improve board processes and considering their specialist knowledge, they ensure continuity, and help identify alliance and acquisition. Thus, NEDs help maintain an ethical climate in the organisation. The observation is supported by a study conducted by Bokpin, Isshaq, and Aboagye-Otchere (2011) in Africa specifically in Ghana where they argued that NEDs are expected to serve as a check and balance mechanism to enhance board effectiveness. In the process of their investigation to prove their point, their study found that NEDs dominated the board and ACs of listed firms on the Ghana Stock Exchange (GSE).

Furthermore, Nugroho and Eko (2012) conducted a study on the effect of board characteristics measured based on the independent board of directors, CEO duality, board size, managerial ownership, multiple directorships, board tenure, the AC, and board interlock on EM in companies listed on the Indonesian Stock Exchange. Using data covering five years from 2004 to 2008 using Jones model (1991) as modified by Dechow et al., (1996). Regression techniques are used to determine the relationship, and it was discovered that EM takes place in Indonesian firms. However, independent BOD's, size, managerial ownership, board composition/multiple directorships, board tenure, and AC do not have a significant positive effect on EM practices in Indonesia. One of the shortcomings of the study is that it excluded AC and variables that are correlated and the use of purposive sampling technique in the study render the study un-scientific since the said sampling techniques are non-probability based, hence the result is said to be non-reliable.

Further, Amran and Abdul-Manaf (2014) examined the relationship between board independence and accounting conservatism among Malaysian companies between 2000 and 2012. The study findings revealed that although board independence is a significant component of CG, its higher presence does not reflect higher accounting conservatism.  Moreover, the independent NED is a constraint in providing effective monitoring and advisory role to the BODs despite the independence. Accordingly, Al-Rassas and Kamardin (2015) examined the influence of board and audit committee independence. Using a sample of 508 listed firms on the Main Market of Bursa Malaysia between 2009 and 2012 where Modified Jones model (1995) and extended Modified Jones

Model (Yoon et al., 2006) were employed as a measure of DA, the study found BIND and ownership concentration to be associated with low earnings quality.

Furthermore, Alzoubi (2014) conducted a cross-sectional study in examining the impact of board characteristics on earnings management (DA) using a sample of 86 listed firms listed in Amman (ASE) from 2008 to 2010. The findings showed that board independence has an adverse relation with EM. It therefore reveals that the character of the board can detect EM, thereby improving FRQ. This study was limited in scope, and as such limits its general application to the role played by board characteristics in EM.

In another study, Karami, (2014) investigated the effects of company's monitoring features on the quality of financial reporting on 120 sampled firms listed on Tehran Stock Exchange between 2003 to 2012. The results showed that if IDs were evaluated about the independence of the BOD's, they would yield a negatively significant relationship with the quality of financial reports. He argues that following no direct involvement of IDs in firm's management of the company, they cannot provide the needed monitoring and regulation to the board, and as such, they cannot ensure high-quality financial reports. Further, the ID may be serving several other boards (busyness), and in some cases, they may be related to the family members of the company or belong to the same professional bodies. In such situation, their independence might be compromised leading to decreased effectiveness and low-quality financial reports. On the whole, He, Piot, Labelle, and Thornton (2009) argued that studies justifying board independence-enhancing FRQ relate to Anglo-Saxon and other European countries, but not in all countries. Consequently, the impact of BIND on FRQ depends on the cultural values, customs and traditions of the researched country.

### 3.7.2 Managerial Share Ownership and Earnings Management

Managerial share ownership refers to managers' possession of equity shareholding in a firm. As suggested by the agency theory, managers' stock holdings encourage managers to align their interests with that of the shareholders towards value maximisation of the firm. In this regard, managerial share ownership is an important monitoring mechanism in corporate governance. Since the managers' interest is aligned with the owner's interest, they need not be monitored to provide the performance and create value for the firm (Warfield, Wild & Wild, 1995). Consequently, Warfield et al., (1995) found an inverse relationship between managerial share ownership and EM. This is in support of agency theory predictions which state that if managers own a substantial percentage of firm equity, they need not be monitored (Jensen & Meckling, 1976).

In line with some findings above, Mustapha and Che-Ahmad (2010) studied the effect of the managerial and block holder ownership using agency theory in Malaysia vis-à-vis non-western firms' for the year 2006. The study found a negative relationship between agency theory that demands control and monitoring of management activities with demand for monitoring managerial share owners in Malaysian firms. They argued that since managers are inside owners, they require less monitoring. This further suggests less conflict of interest and less information asymmetry that results in decreasing monitoring costs. Conversely, the study established a positive relationship between agency theory and block holders who demand higher monitoring due to their non-involvement in the firm's operations and internal decision making. Some limitations have manifested in the study. Firstly, the study is cross-sectional with a coverage period of one-year data that is short. Secondly, the two variables of ownership structures may not adequately justify and generalise the findings of the study for global application.

Subsequently, the result of previous studies on the association between EM and managerial shareholding is inconclusive. In this regard, Johari, Saleh, Jaffar, and Hassan (2008) conducted a study in Malaysia in 2005 with 224 sampled firms listed on the Malaysian Stock Exchange. The findings of the study revealed that DA has a positive association with managerial ownership. It therefore indicates that the higher the managerial ownership of a firm's shares, the greater the incidence of earnings smoothness that may result in lower quality of the financial report. The study suffered some lapses as it considered only one year and the use of OLS as a technique of data analysis. Also, Pedro and Emma (2007) employed panel data regression method in analysing 168 non-financial firms between 1999 and 2002 in Europe. The study finds no relationship between DA and managerial ownership. This suggests that managerial ownership contributes in curtailing EM with a smaller number of managers' share. When managerial share ownership becomes significant, it hurts the informativeness of DA and earnings. In contrast, Smith (1990) studied 58 management buyouts of public companies during the period from 1977 to 1986 and proved the existence of the positive relationship between firm performance and management share ownership, emphasising the significance of manager equity ownership in constraining earnings management practices.

Similarly, Mustapha and Ahmad (2011) investigated the effect of managerial share ownership on agency theory. The data were sourced from both primary and secondary sources to examine 235 Bursa Malaysia listed companies for the 2006 financial year. Multiple regression was used in the analysis. The result revealed the existence of a negatively significant relationship between managerial share ownership and monitoring costs. Thus, this signifies that an increase in the proportion of managerial share ownership in various segments would lead to a decrease in the monitoring costs of the listed firms. On the other hand, Yeo, Tan, Ho, and Chen (2002) examined 490 samples of listed firms between 1990 and 1992. They found a reduction in managers' opportunistic behaviour when their equity ownership was less or equal to 25%. Therefore, any increase in the managerial ownership to 25% results in a positive increase in aggressive income-increasing DA. Hence, even the share ownership of managers needs to be controlled and managed. Otherwise, the substantial number of 25% share ownership may increase the opportunistic behaviour of managers, leading to a decrease in quality of financial reports.

In contrast, Johari et al.'s (2008) study used 224 sample firms listed on the Malaysian Stock Exchange and adopted various models of accruals estimation. The result shows a positive relationship between management ownership and DA in the entire models. Thus, the higher the managerial share ownership of a firm, the higher the incidences of earnings manipulation. However, in the first instance, the study is restricted to listed financial institutions (companies) on Bursa Malaysia. Secondly, the study is also limited to firms listed on Bursa Malaysia which may lack external validity, particularly companies with websites available on the Bursa Malaysia website. For these reasons, the result obtained may not be generalised and applicable in other settings or circumstances.

Alves' (2012) study used 34 samples of non-financial Portuguese firms between 2002 and 2007 and found that DA reduced the level of earnings management, due to the presence of managerial ownership, thereby improving the quality of annual income. On the contrary, managers may be encouraged in employing DA in an attempt to recoup earnings and value of their stock holdings, through higher managerial ownership (Cheng & Warfield, 2005; Hashim & Devi, 2008; Nedal, Bana, & David, 2010). The findings supported the view that firms with higher managerial ownership are associated with more EM. Board characteristics therefore, play a significant role in ensuring high-quality financial reporting. As a monitoring variable, its efficiency and effectiveness are capable of reducing the level of EM by companies that consequently increase the quality of financial reports produced by these companies.

### 3.7.3 Board Size and Earnings Management

Board size relates to the number of directors on the BODs of a company for monitoring and control of managers, even though it is not clear on how the direction of influence tilted. Board sizes may vary, from a minimum of five (5) or six (6) members to a large membership of 20 and above depending on the complexity of the firm and shareholding. However, there is yet to be a consensus on whether greater or smaller boards perform better considering its contribution to company performance or enhancement of FRQ. Board size attracted some research and regulatory provisions, emphasising its contribution to financial reporting and firm performance. Depending on the economic and environmental factors, the results continue to diverge.

From the regulatory standpoint, in Nigeria, the SEC, 2011 did not provide for the maximum number of board membership. However, it is provided in Part B Section 4.2, that accession to the Board should not be less than five (5). It however requires a mixture of executive and NED on the board, with the majority of the membership composed of NED, to be headed by a Chairman. It also states in Part B Section 4.1 that the board should be diverse in experience and compatibility, while integrity should also be considered. Empirically, Schnake and Williams, (2008) studied board sizes and its relations with multiple directorships and firm's unethical behaviour. The study used 181 samples of financial service firms between 1999 and 2003. The results revealed that companies with smaller board sizes are less vulnerable to fraud cases, and their firm's behaviour is better monitored than boards with a larger size. It thus suggests that small board sizes are more manageable than larger boards, in relation to control and meeting its demands.

Also, the control and monitoring of board activities, including management activities seem to be much more effective with smaller boards. Similarly, Sivaramakrishnan and Yu (2008) found that small boards are predisposed to the inability to discover the existence of EM. It therefore suggests that smaller boards are vulnerable to the influence by block holders on the firm's board or management since bigger boards are better in monitoring and controlling management actions.

Also, Rouf (2011) conducted a study on board size, and firms value among others using 93 samples of non-financial listed firms on Dhaka Stock Exchanges (DSE) for the year 2006, employing OLS estimation method as a technique for data analysis. However, the result failed to establish any significant positive relationship between board size and firm value. The study's limitations are manifested first in the sample size that is small and second, the study considered only one year, where if more years are included, it might provide different results.

In a similar study, Hassan and Bello (2013) examined the association between CG, company attributes and voluntary disclosures among listed companies in Nigeria using 50 samples. Regression analysis was used to analyse the said data, and the study discovered that board size has a positively significant relationship with the magnitude of voluntary disclosures of the sampled companies. It therefore means that board composition, leverage, company size, profitability, and auditor type have statistically positive but insignificant impact on disclosure.

The implication of these findings is that board size has a significant effect on the quality of financial reporting and that companies with the optimum board size are less likely to engage in EM practices. Nevertheless, the study suffered some limitations as it considered only one year with a smaller sample of only 50 firms. Prior studies documented that effective discharge of board's responsibilities lies with its ability to ask essential management questions, assist in mapping out corporate strategic plans, contribute towards smooth succession plan of CEO, risk management monitoring and ensuring financial and operating targets are met. Achieving the earlier mentioned objectives depends largely on the size of the board that has the required expertise to accept and handle such responsibility (Barton, Coombes, & Wong, 2004; Hashim & Devi, 2008c; Rajagopalan & Zhang, 2008; Hashim & Ibrahim, 2013; Sama'ila, 2014). Hence, having a large or small board size is inconsequential. What matters most is the expertise and experience in CG and related expertise geared to providing the required monitoring and control of self-motivated management activities.

Given the unspecified number or size of the BOD's of Nigerian listed firms by both CAMA and SEC and the relevant literature reviewed, inconsistent results marred the outcomes of those studies. It would be pertinent therefore, to study from a wider perspective the entire non-financial sectors of the Nigerian firms, in an attempt to examine the effect of board size on the FRQ of the firms.

### 3.7.4 Chief Executive Duality and Earnings Management



Chief Executive duality role is another board characteristic associated with strong CG. Chief executive officer duality refers to the separation of responsibility of chief executive officer and Board Chairman. Some companies allow the two roles to be concurrently discharged by one individual. According to the Cadbury (1992) report, the ability of the BoDs in separating the roles of Chairman and CEO would enhance its monitoring function. Previous research on CEO duality equally document significance in separating the two positions including their role (Beasley, 1996; Davidson et al., 2005; Kent & Stewart, 2008). They maintained that assigning the two positions may give concentrated power and create a conflict of interests that may reduce control and monitoring of managers. Nevertheless, Jiang, Lee, and Anandarajan (2008) documented that separating the two positions of CEO and board chair is associated with a greater firm value. Consequently, since capital market recognises the significance of separating the two roles, firms receive higher valuation following the separation of the two functions.

Further, Abbott, Park, and Parker (2000) relate assigning the two positions to a single person may encourage fraud. One of the ways CEO duality employ to weaken BODs effectiveness and exercise of their oversight functions is by controlling the information given to directors on the board to make decisions. Furthermore, proponents of CEO duality rely on the premise that board independence would be compromised. Also, the entire governance roles and board's oversight functions will be impaired (Coombs & Wong, 2004; Gul & Leung, 2004; Dey, Engel, & Liu, 2011). Moreover, when CEO duality is entrenched, strategies aimed at advancing personal interests rather than company's overall interest would vigorously be pursued. Therefore, vesting the two demanding responsibilities could undermine the effectiveness of the board (Gul & Leung, 2004).

Again, Petra (2007) maintained that the absence of distinct role separation could render the board ineffective and suggests a lack of board independence. Thus, monitoring and decision-making process would be shouldered on one person, which makes it unreasonable to believe the objective evaluation of his actions.

Similarly, Bowen, Burgstahler, and Daley's (1986) and Abdul Rahman and Haniffa's (2005) findings reveal a significance in preventing EM when the CEO and board chairman's role are separated. Similarly, Chen, Firth, Gao, and Rui (2006) found that fraudulent practices are likely to exist in companies that have CEOs who doubled as the chairman of the board.

Moreover, firms with CEO duality reported higher earnings smoothing practices. Further, companies with CEO duality positively relate to EM and reported poor performance. Usually, whenever a company's CEO also serves as the Chairman, the effectiveness of the board tends to reduce. Consequently, the combined role may increase agency costs between management and shareholders and may obstruct the monitoring role of the board. These arguments are well grounded in agency theory, which suggests that in order to make the board of directors independent, the two positions should be separated (Fama & Jensen, 1983).

Furthermore, Bradbury et al.(2006) found that CEO duality decreases the management control that leads to increasing opportunistic, fraudulent and EM behaviours. In contrast, Beasely (1996), Kao and Chen (2004), Davidson et al. (2005) and Rahman and Ali (2006) found an insignificant association between CEO duality with financial statement fraud. Grounded in the stewardship theory of the firm, Coombs and Wong (2004) argue that CEO duality actions are unlikely to be self-serving, as such it would help in achieving organisational objectives. Similarly, Ajina, Bouchareb, and Souid (2013) studied on the impact of CG mechanisms on IFRS in France after 2005, using a sample of 145 French listed firms. The result reveals a positive but insignificant relationship between CEDU and EM, indicating that CEO duality has no significant effect in curtailing EM. Therefore, the two combined roles will facilitate decision-making and assist the board towards arriving at informed decisions without the mystification of accountability.

Accordingly, Vo and Phan (2013) used the generalised least squares (feasible) technique to examine the relationship between CG and firm's performance in 77 Vietnam listed firms for the period between 2006 to 2011. The result of the study indicates a positive and significant association between CEO duality and improvement in firm's performance. This suggests that combining the two roles to an individual impacted positively on the performance of the listed firms in Vietnam. However, the study failed to take into consideration the weakness of generalised least squares (feasible) which included some companies are greater than the number of time, in the case of this study 77 companies and only six years. Consequently, Hashim and Devi (2008) used 200 firms as samples retrieved from non-financial listed firms in Malaysia.

The study considered data for the year 2004 in the analysis where it examines how a higher percentage of independent NED and the CEO duality restrains the occurrence of EM. The results indicate that the presence of a significant number of independent NED on the board is highly associated with earnings manipulations. Furthermore, both board independence and CEO duality were significantly found in EM practices in Malaysia. Due to that, the findings of this study contradict the perceptions that the independence of directors and CEO duality diminishes the occurrences of EM. However, the results of the study may be a constraint on the smaller sample size of 200, considering the number of listed firms on both Bursa Malaysia's Main and Second Board. Secondly, a single period of one year (2004) is too narrow for general application of the results.

On the other hand, Abdul-Manaf, Amran and Ishak (2015) examined board composition, board size, board leadership and informativeness of earnings in Malaysian listed non-financial firms. The study covers a period of 12 years (2001 to 2012), with a sample of 3,761 firms as observations drawn from public companies. Regression techniques were used to analyse the data. The study establishes a statistically significant relationship between board leadership and earnings informativeness. It further documents that CEO duality provides fewer earnings informativeness, whilst firms whose board leaderships are separated offer better earnings informativeness. Thus, CEO duality is associated with less monitoring and oversight function in ensuring quality information to stakeholders. Despite the data of the study being a panel in nature, the years under consideration is small. On the contrary, CEO duality empowers the executive to take critical decisions and be well informed about decisions required in improving the firm's performance (Harris & Helfat, 1998). In this regard, prior studies on the CEO duality's role in constraining the incidences of EM that might lead to enhancing FRQ proved to present inconclusive results. This is more prevalent within non-western economies. As such, further studies in this area, precisely in the emerging and turbulent economy like Nigeria need to be undertaken to provide more robust and additional evidence for generalised results.

### 3.7.5 Gender Diversity and Earnings Management

Recently, the issue of board diversity has elicited the interest of CG researchers. Advocates of female participation in public affairs suggest that the composition of the BoD's should consist of members without discrimination as to sex, religion, ethnicity, race, and colour. Furthermore, Section 4(1) of the SEC CG Code (2011) requires that the boards of public companies should compose of members in such a way that ensures diversity of experience without compromising integrity, compatibility and independence. Further arguments were put forward that gender-diverse boards are associated with higher quality deliberations than those composed solely of males, and such boards communicate more effectively. Although innate differences exist between women and men in the form of ethical behaviour, the risk and apathy to fraudulent activities, some scholars argue that gender diversity on corporate boards may improve the effectiveness of the board (Hillman, 2015). Similarly, Hillman (2015) claims that when female directors are on board, financial performance may be affected negatively by investors' perceptions which will affect the prospect of the firm. He further submits that, given the dominance of men in the investment profession, it may be biased against gender-diverse firms.

Several reasons were further advanced on the need for BoD's to be composed of women, one of which includes women's public attitude of accommodation, the establishment of relationships and teamwork that are some of the characteristics of boards' activity (Dargnies, 2012). In a similar study, Ittonen, Peni and Vähämaa (2015) and Triana, Miller, and Trzebiatowski (2014) argue that women are good monitors and demand more management accountability for performance than men. Given women apathy to fraudulent activities, women are also less overconfident than men and are likely to complain when they discover there is intent to commit fraud (whistleblowing) as it was in Enron and WorldCom (Ittonen et al., 2015).Thus, less overconfidence is more likely to make them establish higher verification statndards of managers' reports which can lead to richer information environment.

Accordingly, Srinidhi, Gul, and Tsui (2011) argued that board gender diversity could improve the quality of board discussions and enhance control of firm's disclosures and reports. Further, prior studies' arguments on gender representations were based on documented evidence in psychology and behavioural economics literature that behavioural differences exist between men and women. Furthermore, evidence has shown that female directors are highly determined to reach the top echelon of leadership and avoid risk than men (Levin et al., 1998; Byrnes, Miller, & Schafer, 1999; Eagly & Carli, 2003). Similarly, women have a higher propensity to comply with rules and regulations in the financial decision context than men (Bernardi & Arnold, 1997). These gender-based differences may have implications for FRQ if females are on board to monitor management.

Bart and McQueen (2013) conducted a survey to determine women reliance on three reasoning methods of Personal Interest, Normative and Complex Moral Reasoning to make decisions. The study finds that the presence of female directors on boards is associated with corporate performance, and argue that women seem to make better directors than men. Using the Defined Issues Test (DIT), 624 board directors (75% male; 25% female) were surveyed to determine their reliance on the three reasoning methods. The results indicate that female directors achieved significantly higher scores than their male counterparts on the complex moral reasoning dimension that necessarily involves making consistently fair decisions when competing interests are at stake. This study reveals that having a significant proportion of female directors with highly developed CMR skills on board would be a valuable resource for decisions making and enhance their effectiveness. However, the effectiveness of women in the boardroom would be better if they do not mimic men's behaviour. Thus, they should be authentic and use the skills and talents to support their boards deal with the multidimensional social issues. Otherwise, men would continue to present a dominant role on corporate boards. The proponents of signalling theory argue that appointing a female to corporate leadership position, from being a director or member of AC sends a positive signal to capital market participants (Huang, Yan, Fornaro, & Elshahat, 2011; Thiruvadi, 2012).

Further, Huang et al. (2011) maintain that proportional increase of female directors on corporate boards would increase the market perceptions of the audit committee's independence and overall performance of governance roles. The results provide additional evidence that appointment of females on the audit committee triggered share prices to react favourably with positive increase in returns. However, the size of the audit committee, its composition and financial expertise including the number of the female members on the AC has not been disclosed. Thus, it would be difficult to generalise the application of the result in a different institutional settings. And so, whether the presence of women on a firm's AC influences share prices and returns remain an empirical issue that requires investigation particularly in developing countries.

Arute, Bernardi and Bosco (2015) investigated the association between female representation on corporate boards with company's stock prices for the period between 2006 to 2012. Using the US *Fortune* 500 companies consisting of 314 sample companies, the results indicate that a negative relationship exists between the percentage of female board members and performance of firms' common stock price. They further argue that any additional increase in the number of women directors lowers the capital gains yield. The findings of this study did not justify the selection criteria employed in selecting female directors. In addition, a single (catalyst) measurement technique cannot provide the required result when compared with other techniques such as human capital-based investment criteria. Moreover, it is not clear whether qualification and capital market experience are considered in the selection criteria.

On the other hand, Krishnan and Parsons (2008) found that companies which have more female senior managers do better in terms of profitability than those with fewer females. All these suggest the importance of women in society and leadership roles. On setting a specific percentage of women representation on corporate boards, Rose (2007) documented that Norwegian law requires 40% membership on boards of a company to be women. Also, Srinidhi, Gul and Tsui (2011) stated that other European countries have also provided legal requirements for female members on boards. They posit that Sweden requires 25% seats for women board members, while Spain stipulates that female representation on the corporate boards should be at least 40% by the year 2015. However, the study did not consider issues of women motivation to business, legitimacy, experience, ability to reach the top echelon and the outcomes of quotas. Thus, the study should have examined the effects of quotas and whether gradual legislations such as ‘comply or explain’ policies would help to achieve female representation on board by quota.

In contrast, Carter, D'Souza, Simkins and Simpson (2010) examined a sample of US firms for the 1998-2002 financial years. Using multiple regression analysis, they found an insignificant relationship between firm performance and gender diversity. The results neither show support nor did it provide evidence suggesting an adverse effect of the inclusion of women on corporate boards.

Similarly, Amran, Abdul-Manaf and Ishak (2016) examined the association between women directors on the corporate boards of Malaysian non-financial listed firms and earnings quality between 2001 and 2012. The study used 4,943 firms as samples and employed multiple regression technique in analysing the data. The study could not establish evidence of value creation by the Malaysian women directors on the corporate boards of non-financial listed companies in Malaysia. Again, significant differences in the quality of earnings of the firms with or without women on the board of these companies could not be established. Therefore, the study could not establish that presence of women on boards enhanced the quality of earnings as well as the board governance.

Furthermore, Capezio and Mavisakalyan (2015) examined the relationship between female representation on boards and fraud in Australia, for the period from 2002 to 2007. Using probit models of estimation on 128 observations of publicly listed companies included in ASX 200, the study found that women occupied 5.49% board seats in the sampled companies. The study finds a negative but statistically significant impact on the likelihood of fraud with women on corporate boards. Thus, an increase in female representation on corporate boards reduces the incidence of fraud. However, apart from the size of the sample, it is not clear regarding the type and nature of the fraud, amount, and transactions involved in the study that women directors have mitigated which would enable general application of the findings, particularly in less developed economies.

On the other hand, Barua, Rama, and Sharma (2010) examined the relationship between female executives and accruals quality and established that firms with female chief financial officers are more conservative in financial reporting practices. These studies empirically provided evidence suggesting that female executives are more careful and conservative in making decisions on EM. It further suggests that gender differences may affect the quality of financial reporting. The outcome of this study also supported findings of Ujunwa, Okoyeuzu, and Nwakoby (2012).

Srinidhi et al. (2011) examined that firms with gender-diverse boards exhibit higher-quality earnings using a sample size of 1045 non-financial companies from S&P COMPUSTAT for a period between 2001 to 2007. The findings using multiple regression analysis showed the presence of women directors on the board reflects a higher EQ. This indicates that quality earnings are higher with the presence of female directors. Further, Gul, Srinidhi and Ng (2011) investigated the relationship between board gender diversity and information on stock prices by providing accurate information on share prices. Their samples consist of 5,021 firms for the period between 2001 to 2006. Information relating to director's gender were obtained from a corporate library database, employing logistic regression analysis technique. The results indicated that stock prices of boards with gender diversity presented more firm-specific information useful to investors. However, these studies are mostly US based, with available and accessible data that might not be the same if conducted in a less developed economy.

Zhang, Zhu and Ding, (2013) examined the relationship between board independence, the presence of female directors and corporate social responsibility (CSR) performance in the Post-SOX Era. Using logistic regression and stepwise variable selection on 516 largest U.S. stock exchange listed companies, the study findings revealed that CSR performance is associated with the presence of independent and female directors on the boards. It concluded that corporate boards should be carefully structured to enhance company's moral legitimacy. The study's findings require re-examination in a non-U.S. and non-western environment (cross-country) to validate its applicability in making generalisation.

Nevertheless, the study did not address the overlap between the outside directors and female directors. Also, the study used archival data to examine CSR performance. Perhaps the result might be different if the longitudinal study is employed to assess the CSR performance on pre and post-SOX. On the other hand, Mathisen, Ogaard and Marnburg (2013) investigated female directors' experience on boardroom dynamics in Norwegian firms. Using a sample of 491 on 149 corporate boards, the result shows no support for a significant difference in the perceptions of board dynamics between female directors with non-traditional education and other female directors. The study concludes that female directors are welcomed into boardrooms and perceived to be a professional colleagues by the male board members, who has potential to benefit from the wealth of experiences and skills. Nonetheless, the study failed to investigate subgroup differences of women directors to find the extent of vulnerability in becoming outgroup than others. Thus, personality differences and varying levels of social competence between female directors could reveal different perceptions about boardroom processes. Again, the study could not identify strong characteristics of women directors with regards to educational, professional background, related experience, or gender. In addition, how different forms of social identification affects their insight into the boardroom dynamics were not addressed.

However, Abdullah, Ku-Ismail, and Nachum (2016) documented mixed results on women participation on corporate boards of directors. The findings reveal that the appointment of female directors creates value for some firms while it decreases value in others. The result could not provide a direct and positive impact of women directors' presence on firm performance. The reason might be due to differences regarding ownership, performance indicators, the structure of the board, industry and country specifics.

Arun, Almahrog and Aribi (2015) examined the influence of women directors on earnings management practices in the UK, between 2005 and 2011, using a pooled OLS regression technique and Dechow et al. (1995) model of discretionary accruals, in addition to a sample of 1220 companies out of 10 industries. The study found that companies with a higher proportion of female independent directors tend to engage in income-decreasing EM practices than companies with a lower percentage of female independent directors. Again, female directors on the board of highly levered companies have no impact on the levels of EM, while a positive association exists between independent female directors on the board of less levered companies and earnings management practice. However, the results relate to the UK institutional context, perhaps the result may provide a different result if tested on boards with less female directors or female directors with lower financial literacy that would enable adequate monitoring and control of managerial entrenchments.

Peni and Vähämaa (2010) examined the relationship between gender of the firm's executives and earnings management in the US S&P 500 firms for the period from 2003 to 2007. The study uses a sample of 391 and 1,955 firm-year observations; the study employed both Dechow and Dechiv (2002) and McNichols (2002) models of discretionary accruals to analyse the data. Further, the findings indicate that firms with female chief executive officers have a negative association with EM, suggesting that the companies with female chief executive officers observe conservative EM strategies. Although the study uses a larger sample size, the findings may not apply to non-US companies and in different business circles. Also, the study focuses on Chief financial officers (CFOs). As such, the study suffers a selection bias with some firm characteristics. Thus, the study could have examined the independent female board members' monitoring role, since the board is the overall overseer of the company, hence omitting some correlated variables.

Terjesen, Couto and Francisco (2015) investigated the relationships between gender diverse boards' independence and efficiency. Using the generalised methods of moments techniques with a sample of 3,876 firms in 47 different countries, it was found that the higher the proportion of female directors, the higher the performance by market and financial performance. They further suggest that the contribution of outside IDs to firm performance is weak unless the board is gender diversified. Moreover, the effectiveness of boards of directors strongly depends on the presence of female directors. They maintain that firms that are more concerned about board independence and effectiveness of the board are found to be gender diverse. Besides, the study failed to address other gender diverse issues, such as educational status, work background, ethnicity, and age. Secondly, the survey focused on developed countries with diverse social and economic status compared with less developed countries where participation of women in public activities is highly restricted. Thirdly, the study measures firm's financial performance only, neglecting the non-financial measures, such as social performance and minority managers, or other social responsibility practices.

Prior studies recommend setting a quota for female directors on corporates boards, citing Norway quota as a reference point to find effects of female directors on company performance. Issues such as the timing of the study, selection of control variables and sample and mechanisms explaining the results may raise concern over the causal evidence on the effects of quotas on performance. Therefore, studies on female directors should focus on how setting quotas affects the firm's financial performance (e.g. quality of earnings).

Consequently, Adams, Haan, Terjesen and van (2015) report that most board diversity studies focused on developed countries. For that reason, analysis of data on gender representation on the board for developing countries, where issues of gender diversity are gradually growing may contribute more to the understanding of the relationship between female directors' representation on corporate boards and quality of the financial reporting. Thus, the present study fills the gap by providing evidence of gender diversity from the developing (African) country, with diversities in culture, religion, education and legislation.

### 3.8 Audit Committee Characteristics and Earnings Management

The Board Audit Committee is delegated with financial oversight responsibilities (Menon & Williams, 1994). Early studies on the AC focused on issues relating to determinants of the AC formation (Bradbury, 1990). Besides, these studies tried to ascertain whether improvement in governance and accountability was a result of firms' AC (Wild, 1994). However, there has been a development in research findings that continued on substantially from the early studies of a new focus on different aspects of research, particularly on AC financial expertise, the effectiveness of AC, and its effect on the quality of financial reporting.

#### 3.8.1 Audit Committee Independence and Earnings Management

Audit committee independence represents the presence of NED on the AC of a company. Given the oversight function of the AC, independence is one of the essential qualities of AC members. As a CG mechanism, audit committees are seen as being responsible for overseeing the reporting process of firms' finance. It is also to ensure external audit objectivity in conduct and reporting (Uzun, Szewczyk, & Varma, 2004). The independence of AC is necessary for the monitoring process involved in financial reporting (Koh, Laplante, & Tong, 2007; Yang & Krishnan, 2005). Therefore, the effective discharge of monitoring responsibility lies on the level of AC independence. The absence or low level of AC independence would adversely affect the quality and credibility of financial reporting (Lin, Li, & Yang, 2006).

Previous studies (Pucheta-Martínez & Fuentes, 2007; Vafeas & Waegelein, 2007; Mangena & Tauringana, 2008; Rustam, Rashid, & Zaman, 2013) evidenced benefits to be accrued when the AC is independent. Furthermore, Koh et al. (2007) and Kent, Routledge, and Stewart (2008) observed that higher FRQ would be achieved when the AC is highly independent. On the other hand, Bronson, Carcello, Hollingsworth, and Neal (2009) documented that AC independence would be of great benefit only when the AC is entirely independent. There is the possibility that the audit committee characteristic which can reduce EM in the developed economies may be ineffective in less developed economies. When regulatory or standard definitions of independence are met, these studies assume that audit committees are likely to be more effective in monitoring management activities. While this argument may hold, one shortcoming is that independence in form may differ with independence in substance, hence the probable reasons for the mixed results of previous studies on the relationship between AC independence and earnings quality.

### 3.8.2 Audit Committee Financial Expertise and Earnings Management

Accounting or financial expertise are attributes/qualification or experience acquired by a person before becoming a board member of a company. Previous studies support the existence of relationships between accounting expertise and quality financial reporting. Accordingly, Carcello, Hollingsworth, Klein, and Neal (2006) document that, there is a reduction in the use of DA and income-increasing accruals when accounting expert is on the AC and when firms have at least one general financial expert on their AC (Bedard, Chtourou, & Courteau, 2004). Also, Xie, Davidson, and Dadalt (2003) suggest that AC members need financial sophistication. Furthermore, the BOD's and AC members' financial sophistication are necessary in curtailing tendency of managers engaging in EM practices. Meanwhile, Xie et al. (2003) posit that DA was lower when an investment banker is appointed to the AC. Thus, the results indicate that appointing at least a member with necessary experience from the finance sector supports high-quality financial reporting.

In addition, Krishnan and Visvanathan (2007) argue that there is a positive association between accounting expertise and the proportion of AC members. Hence, the percentage of financial expertise on the AC reduces the level of fraudulent practices and strengthens the internal control process. In their assessment of the relevance of financial expertise on the audit committee, Zhang, Zhou & Zhou (2007), and Hoitash, Hoitash & Bedard (2009) maintain that a proportion of financial experts are unlikely to report weaknesses in the internal control of the firm. Their arguments focused on financial experts, and not necessarily accounting experts who should be on the AC committee. These results agree with the fact that the association between financial experts and sound internal control systems over financial reporting relate to the quality of financial reports.

Similarly, Krishnan and Lee (2009) examined the determinants for the choice of AC financial experts using a sample of 1000 firms. The finding of the study reveals that the appointment of accounting/ financial expert is expected with companies that have higher litigation risk. Thus, companies with a strong governance structure that are facing ligation risk are likely to appoint accounting/financial experts than firms with weak governance structures. Moreover, the strength of internal controls is associated with financial expertise in the AC.

Supporting the significance of financial expertise is the study of Defond, Hann, Xuesong, and Engel (2005) who examined market response to the director's appointment with financial expertise on the AC for 702 companies, before the implementation of SOX requirements. The findings show no reaction to the nomination of non-accounting financial experts. However, a positive market reaction was found on the appointment of accounting financial experts on the ACs. Similarly, constraining irregularities is a major challenge for ACs due to manager's behaviour of hiding fraudulent practices away from monitors, thereby avoiding penalties for deliberate GAAP violations (Larcker, Richardson, & Tuna, 2007; Schrand & Zechman, 2012). Therefore, intentional mix-ups make reports incomprehensible and prevent ACs from detecting and preventing irregularities. Mustafa and Youssef (2010) investigated the relationship between AC financial expertise and misappropriations in US public companies.

In a sample of 28 US public companies experiencing misappropriation between 1987 and 1998, besides 28 control companies based on size, industry, and age, a logistic regression model was employed with non-accounting and accounting/financial expertise. The findings revealed that an independent AC member was only effective in decreasing the incidence of misappropriation in public companies if the member is an accounting/financial expert in addition to his/her previous experiences. However, the study used only 28 misappropriation cases by employees with the connivance of outsiders. As such, the sample size is too low for a study of this nature in the USA, which limits its validity, as well as generalisation.

However, Badolato, Donelson, and Ege (2014) argue that it is not enough to have accounting/financial expert as a member of ACs in restraining EM, but a mixture of financial expertise and high status of the AC members. In contrast, Hayes (2014) disagrees with Badolato et al.'s (2014) conclusions, and argues that the researcher's conclusion that lower status has rendered ACs less effective is irreconcilable with multiple decreases in misreporting. Moreover, until Hayes' (2014) argument on the relevance of role status of ACs' membership, several empirical studies supported the accounting/financial expertise as among the significant factors in enhancing quality financial reports. However, there are inconsistencies with prior findings, particularly with the unexplained effect of debt structure as the external monitoring mechanism of boards and management. It thus suggests that extensive research needs to be carried out on the impact of financial/accounting expertise on the effectiveness of AC.

Similarly, Cohen, Hoitash, Krishnamoorthy and Wright, (2014) argue along similar findings of Hayes (2014), having agreed with Hayes' position of having accounting/financial expert on the AC. Additionally, Cohen et al. (2014) advocate that AC as a combination of accounting and industry experts perform better than those with only accounting expertise. The results suggest that accounting/financial expertise is not enough in enhancing FRQ. Rather, a combination of industry know-how and accounting expertise can improve the effectiveness of the AC and improve monitoring of financial reporting process. This suggests that previous studies' results emphasise the need for AC expertise, but Cohen et al. (2014) emphasised that AC industry expertise is equally valuable in improving the FRQ.

Accordingly, SEC Code of CG 2011's requirement to have at least one (1) financial literate member in the AC assumes that the presence of such member enhances the committee's monitoring roles. It thus means that the literacy is likely to lead the AC to identify and ask well-informed questions that task both management and external auditors to a larger extent and thus enhances FRQ. The differences in the requirement for having both accounting and financial experts' presence on the AC in developed countries may be consequent upon their levels of education and availability of professionals in the economy. This study fills the gap through its findings on the relationship between AC financial expertise on a six-member AC and its impact on earnings management.

### 3.8.3 Audit Committee Share Ownership and Earnings Management

Audit committee share ownership represents the AC member's proportion of shareholdings in the company. Previous studies have documented the potential effects of AC members' share ownership in the monitoring of financial reporting process of a firm. For instance, Lavelle (2002) argues that the AC members with a greater percentage of shareholdings can be questioned, given their percentage equity holding that may be used in protecting their investments. Similarly, Carcello and Neal (2003) argue that in the event AC shareholdings in a firm becomes increasingly large; they may struggle to exercise unnecessary influence on the discontinuation of external auditor services subsequent upon expressing a going concern opinion (report) to protect their interest.



However, prior studies (Shivasani, 1993; Mangena & Pike, 2005) have argued that having AC members with share ownership can lead to higher vigilance that may ultimately motivate them to ensure company performance. This is possible due to their stake in the company and as NED on the AC, they may be motivated and can as well effectively assist in improving the financial reporting process. Further, this argument is supported from the agency theory perspective, where agents are driven by their interests and would always try to pursue and further move towards achieving set objectives. Therefore, any percentage increase in their stake (shareholding) of the company would encourage higher monitoring and control of management activities (Jensen, 1993). Furthermore, Vafeas (2005) examined the relationship between BOD's, audit committee and FRQ. The study used 252 samples of U.S. firms using logistics regression for the analysis for the period of six years (1994 to 2000). Similarly, Bolton (2014) studied the audit committee performance related to stock ownership and independence. The study employs OLS and instrumental variables as techniques of analysis with the firm-year observation of 14,576, for the period between 1998 to 2008. The results reveal that audit committee stock ownership has a positively significant relationship with firm's performance. The study maintains that the relationship becomes stronger with boards that have greater independence than those boards that are less independent.

Nevertheless, one major shortcoming identified with the result is the likelihood of EM which might be a factor that determines the firm's performance and not the corporate governance environment. Consistent with agency theory, it was found that there is a positive association between the equity holding of AC members and FRQ.

## 3.9 Underpinning Theories

There are many governance theories said to have explained many corporate governance studies. Therefore, agency theory, Resource dependency theory, Stewardship theory and stakeholder theory are reviewed purposely to explain the appropriateness of each to the study. In particular, theories considered to underpin and best explain the relationship between the board, audit committee characteristics and financial reporting quality are in the following sections:

### 3.9.1 Agency Theory

Corporate governance (CG) issues have been one of the most topical concepts in the governance literature. Spear (2004) documented that the first work on governance originates in the work of Berle and Means (1932) which contended the dominance of management and the legal function of shareholder control, and the ineffectiveness of the board in checking managerial power in the interests of shareholders. The manager (agent) is working as a representative of the owners/shareholders (principal), and whose actions, and decisions are not observed or shareholders may not be aware of the consequences of several of the measures taken by the agent. This creates information asymmetry between shareholders and the agents that is regarded as the principal and agent problem. The asymmetric information could lead to a moral hazard and/or adverse selection. Adverse selection occurs as a result of different information provided by the agent that caused the principal to incur undesired costs as a consequence of the imperfect information. While moral hazard occurs as a result of risk taken by the principal that results in costs associated with that risk which the agent is insulated from. Thus, information available protects him from the negative consequences of the risk.

Furthermore, Mizruchi (2014) documented that works of Berle and Means's is grounded on the separation of ownership and control coupled with the manager's lack of accountability to investors and society. Berle and Means were concerned on how managers operate as a self-perpetuating oligarchy, who failed to be accountable to the stockholders they are supposed to represent, thus creating a conflict of interests between managers (agents) and owners (principals). However, the fundamental governance issue of how the differentiated companies are to be governed could be traced to the studies by Fama (1980), and Fama & Jensen (1983). The predominant hypothesis in this area is agency theory. Agency theory gives justification on how the present day corporations can be governed, mainly on the provisions of two full range of external and internal systems, corporate control, and most essential the board of directors.



Therefore, the agency theory is used to explain the relationship between the principal (owners) and the agent (managers). In this regard, a representative (agent) is appointed to represent and oversee the regular operations of the corporation while the shareholders provide capital. Therefore, separation of ownership and control leads to information asymmetry and possible conflict of interests between managers and shareholders (Jensen and Meckling 1976; Fama 1980). The apparent conflict of interests between managers and owners consequently lead to costs associated with solving these conflicts (Eisenhardt, 1989). Further, the basis of agency theory is that the agents in most cases are motivated in pursuing their self-interest and would ensure that it is achieved instead of pursuing the interest of the shareholders. These self-motivated interests lead managers to engage in flamboyant offices, and extravagant spending that is borne by the shareholders. Instead, managers are expected to ensure they pursue and protect shareholder's interest rather than their self-interest. Eisenhardt (1989) maintains that conflict arises when the principal is unable to monitor and verify what the agent is doing with what was entrusted to him.

Therefore, it would cost the principal to ensure adequate monitoring of opportunistic behaviour by managers which would ultimately reflect in the company earnings. Hence, the opportunity created by management to manage the company's reported earnings is due to the desire to ensure they meet or beat earnings targets, and the desire to boost the company stock price. Also, managers want to receive bonuses/managerial compensations that may be tied to the firm's earnings. With this object in mind, managers use their discretionaary power on accruals to manage earnings, thus enhancing the reliability of reported earnings and the entire financial statements.

Xie, Davidson, & Dadalt (2003) argue that when management provides inaccurate financial reporting information, it introduces EM in the form of agency cost. According to the agency theory, EM is a sign of the agency problem, a consequence upon which improvement of CG creates the tendency of decreasing EM practices. Chen and Zhang (2014) argue that effective CG mechanisms can decrease agency costs and curtail EM practices. Also, the governance mechanisms are aimed to ensure agent-principal interest alignment, protect the interests of the shareholder thereby reducing agency costs (Davis, Schoorman, & Donaldson, 1997). It thus suggests that CG mechanisms can mitigate agency costs and ensure shareholder's interests are protected through monitoring management activities by aligning shareholder interests with those of the management. Also, issues bordering on board size, board of directors and structure of their ownership were developed to bring in line interests of the agent and that of the principal. The aims of these mechanisms are geared towards improving the overall effectiveness of the oversight function of the board of directors.

### 3.9.2 Resource Dependence Theory

The agency, stewardship and stakeholder theories provide the understandings to the shareholders, managers and stakeholder perspectives while another corporate governance theory which emphasises the need for different resources for the success of the business is termed as the resource dependence theory. The focus of both stakeholder and agency theory is the managers and groups of different peoples respectively, but this theory introduces accessibility to resources that is a critical dimension of the corporate governance debate. The sources for resource dependence theory were carried from the work of Jeff Pfeffer in (Pfeffer, 1972) who demonstrated the importance of the relationship between power and exchange within and around organisation. His work was further emphasised by Aldrich and Pfeffer (1976) and Pfeffer and Salancik (1978). Though agency theory suggests the importance of boards in monitoring the managerial activities, resource dependence theory highlighted another role of board directors as the resource providers (Hillman, Withers, & Collins, 2009).

According to Pfeffer (1972), resource dependence theory argues that a company's success is dependent upon maximising its power over certain resources which are necessary for running smooth operations. The theory concentrates on the role of the board that helps to secure and acquire the essential resources of the organisation by their external linkage to the environment. Through these linkages, it brings in different resources, such as information, skills, access to supplies of raw material, the buyer of outputs, public policy makers, social groups as well as legitimacy (Hillman & Dalziel, 2003). Consequently, under this theory, the board of directors is the key source of various resources, in which different resources provision improves organisation operation, firm's performance and organisational survival (Daily & Dalton, 2003).

Similarly, Ulrich and Barney (1984) argue that organisational performance highly relies on the power of a company to provide the essential and scarce resources. Therefore, corporate performance can be assessed by the efficiency and efficacy of the network and communication between contractual parties of firms. Prior studies that provided evidence on the role played by corporate boards in accessing the desired resources are Salancik and Pfeffer (1978) and Dalton, Daily, Johnson, and Ellstrand (1999) who found that without the help of corporate boards, it is hard for organisations to acquire necessary resources. In RD theory, diversity of board members is seen as the essential element which leads towards the broader business connections (Siciliano, 1996) and firms with environmental dependencies are likely to have females on corporate boards as directors (Hillman, Shropshire, & Cannella, 2007).

Accordingly, Dalton et al. (1996) argue that independent directors on the boards provide more assistance in gaining the desirable resources, as directors have more linkages with the outside environment that is necessary for organisation's survival and future growth. They classified directors as business experts, support specialists, and community leaders, depending on the types of resources they bring to the board. Firstly, inside directors that provide information regarding company finance and regulation make strategies and give direction for decision making. Business expert directors who are the present, former and top analysts of the profit-oriented larger firms, provide guidelines for strategy making, problem-solving and give their professional opinion for decision making. Amongst the specialists that provide support regarding their specific fields are bankers, lawyers, experts in public relations and politicians with public governance experience (Lester et al., 2008). Finally, another type of directors is community influencers that consist of political or social and community leaders. Hillman and Dalziel (2003) found the board of directors as the main source for the achievement of different resources required by the firms.

Also, Ruigrok, Peck, and Tacheva (2007) considered the boards as the boundary guards that shelter the necessary firm's resources like capital, knowledge, skills and projects partnership agreements. Moreover, Aguilera, Filatotchev, Gospel and Jackson (2008) argued that the stewardship and stakeholder theories cover the restraining assumptions of the agency perspective, but still these theories do not provide the broader view of the corporate governance that makes it connected with the diverse organisational environments. Hence, resource dependence theory covers that.

### 3.9.3 Stewardship Theory

Stewardship Theory is another theoretical perspective to understanding the relationships between ownership and management of the company (Donaldson & Davis, 1991). Distinct from agency theory, stewardship considers psychological and sociological methodology. It argues that there is an alignment between the owner's interest and the interests of corporate managers (Albrecht, Conan, & Chad, 2004). The stewardship theorists concentrate on structures that enable and encourage as opposed to monitoring and control. They dismiss the profoundly individualistic model of agency theory that advances a suspicious approach, expecting that principals and agents have unique interests and sees agents as essentially serving toward oneself and selfish. Along these lines, they also dismiss the view that principals need to invigilate the sharp/opportunistic managers by observing them and applying sanctions or motivating forces as a method for control.

Stewardship theory takes an opposite point of view in proposing that the agents are reliable and trusted stewards of the resources that are entrusted to them, which makes monitoring unnecessary (Davis, Schoorman, & Donaldson, 1997). Since managers are not selfish and act in the finest interest of the shareholders, they ought to also be given freedom grounded on conviction and trust, which reduces the cost of monitoring their behaviour. It therefore implies that as far as the Stewardship theory is concerned, managers are viewed as loyal, and their conduct does not have to be monitored. Thus, the attitude of the steward in this regard is collective and targeted towards achieving organisational goals (profitability). Furthermore, both the principal and the company would benefit from that behaviour due to the gains that might accrue from profits on dividend and increase in share prices. In this respect, managers' interests are associated with those of the owners.

Accordingly, Stewardship theory asserts that the typical corporate structures are those that empower compelling coordination in the organisations. The stewardship point of view sees directors, and also managers, as stewards of the firm and as such are likely to enhance shareholder's wealth. Davis et al. (1997)

recommend that stewards gain more fulfilment by attaining towards corporate goals rather than pursuing their personal interests. Davis et al. (1997) further contend that achieving organisational goals also fulfils the individual needs of the stewards. Along these lines, the stewardship theory considers that managers' decisions are also affected by non-financial motives, such as the requirement for accomplishment and recognition, the characteristic fulfilment of satisfactory performance, and admiration for power and the hardworking attitude.

To understand the effect of Stewardship theory from the board's perspective, it considers the BOD as a mechanism of assistance to a steward (CEO) instead of a controlling mechanism (Albrecht et al., 2004). It also considers that management is less inclined to practice earnings management. In this regard, the issue lies in the degree that the management tries to achieve good corporate performance. Thus, the need for supervision of a steward is reduced and indeed, would be unnecessary with regards to the overall interests of the company (Tosi, Brownlee, Silva, & Katz, 2003). Therefore, the argument advanced for stewardship theory is that, with adequate control by managers, it would empower them to maximise the firms' corporate profits and performance.

However, chief executive officer duality, that is the same individual holding the position of chairperson and CEO, is favoured by the stewardship theory, and it is contended that it leads to better firm performance because of clear and unified leadership (Donaldson & Davis, 1994; Davis et al., 1997). The empirical findings of Bhagat and Black (1999) document that organisations with a high number of outside directors on its board perform bettter than firms with less outside directors. Along these lines, some scholars lend support for the stewardship view hypothetically (Davis et al., 1997). Managers of family-run organisations are more inclined to be concerned with the continuity of the organisation than by the success in quarterly earnings (Gallo & Vilaseca, 1996).

Prior studies also examined the influence of the stewardship construct on newly incorporated companies. Like family managers, business entrepreneurs have a tendency to relate to the organisation they found (Wasserman, 2006), and are focused on their organisations (Dobrev & Barnett, 2005). Further, it was argued that with such inspiration, entrepreneurs are more inclined to carry on as stewards than as agents (Arthurs & Busenitz, 2003). In addition, some researchers use stewardship to examine compensation of organisation board members (Thorgren, Wincent, & Anokhin, 2010), board structure (Muth & Donaldson, 1998) or board effectiveness (Roberts, McNulty, & Stiles, 2005; Minichilli, Zattoni, & Zona, 2009).

In most of these studies, the stewardship construct has been utilised either to verify board members conduct or to build a research model or both. Therefore, Stewardship theory highlights the possibility of harmonious goals of the owners and the managers (Davis et al., 1997), extending the goals of agents beyond their self-interest and towards the organisation's goals. In this regard, it argues that the obligation and power of executive managers provide a superior focus on organisational goals, leadership and execution of operational decisions, leading to more successful and effective corporate governance. Moreover, managers will not act to align their interest with those of shareholders. Choo and Tan (2007) contend that psychologically, the absence of non-executive directors may influence managers to commit irregularities.

Albrecht et al. (2004) further assert the way that the relationship between principals and agents focused on the stewardship viewpoint may give opportunities for management to engage in fraudulent activities. However, Donaldson & Davis (1994) maintain that the stewardship theory remains the theoretical foundation for better regulation and legislation in corporate governance. Further, Muth and Donaldson (1998) contrast the expectations of agency theory and those of stewardship theory and support stewardship theory as a decent model of reality.



### 3.9.4 Stakeholder Theory

Stakeholder theory is lien to agency theory in the sense that, the interest of all the stakeholders is considered or taken into account as against the interest of the shareholders alone under the agency theory. Mary Parker Follett is believed to have set forth the idea of stakeholder theory over six decades ago, with its re-emergence in the 1980's (Schilling, 2000). Distinct from the agency theory, where managers are working primarily to serve the interest of the shareholders, stakeholder theory advocates that there are networks of relationships in organisations. As such, managers should work towards serving these networks given their importance to the corporate survival of the organisation. Further, stakeholder theory supports the view that companies and society are interrelated. Hence, their corporation serves general societal goals as opposed to its responsibilities to shareholders (Kiel & Nicholson, 2003).

However, Freeman, (1984, pg. 42) looked at stakeholder as " include those group who are vital to the survival or success of the corporation". Thus, statkeholder could be any group or individual who can exert some influence, or is concerned with the achievement of the organisation's objectives. Freeman (1984) further argues that the groups of stakeholders include stockholders, employees, suppliers, lenders, customers, and management who are so important given the contributions they make towards the success and corporate survival of businesses. As a result, firms should formulate a corporate strategy that ensures the incorporation of stakeholder interests because of the value they create.

Furthermore, distinct from the maximisation of firm and shareholders wealth, stakeholder corporate governance considers diverse interest groups (stakeholders), and therefore, demands to represent the interest of those stakeholders on the board (Ayuso & Argandoña, 2007). Stakeholders are therefore, individuals or groups that have a stake in a firm who are classified into different groups of participants. As a consequence, whoever has an interest in the firm's business, constitute a stakeholder.

Again, stakeholder groups may consist of shareholders, employees, investors, customers, suppliers, creditors, management, community, government and sometimes competitors whose interests are aligned with the company's function (Schilling, 2000). Consequently, Donaldson, Preston, and Preston (1995) refer to stakeholders as individuals or group of persons with interests in procedural or fundamental aspects of corporate activity. Thus, stakeholder theory stresses the need to equip managers well to articulate and adopt the objectives of their firm. [Contrary to the agency theory, managers are part and parcel of the organisation (stakeholders)]. As such, with the necessary support and resources at their disposal, they would align organisational objectives with their personal objectives and would ensure meeting those objectives in the best interest of the firm.

But, there are scholars that criticise arguments of the stakeholder theory, on the ground that it is incompatible with the business reality of long-term maximisation of owner's value. One of the critics of stakeholder theory, Sternberg (1997) argues that it is incongruent with the corporate governance that requires that the organisation be accountable to everyone. In this regard, Sternberg (1997) maintains that when the organisation is accountable to everyone, then it is answerable to no one. Furthermore, where various stakeholder interests are to be met, the identification, definition and alignment of the diverse interests is another challenge to managers (Sternberg,1997; Jensen, 2001; Sun, Salama, Hussainey, & Habbash, 2010). Similarly, where there are multiple stakeholders, ranging from individuals, groups, government, employees, trade unions to local communities, correctly defining, identifying and meeting their divergent interests would pose a challenge to managers. Further, Blair (1995) contends that, despite the fact that the theory has a more significant authentic foundation, reasonable intellectual applications, and quest than agency theory, he maintains that corporations are not just packages of physical assets. They are lawful structures whose role is to represent the connections between all the relationships that make investments in the wealth-creation process of the firm. Undoubtedly, this incorporates shareholders, suppliers, creditors, customers, and dedicated employees.



Consequently, scholars opposed to managers' voluntary desire to align their interest with owners when given the latitude to operate freely. For this reason, Sundaram and Inkpen (2004) contend that emphasis on shareholder value becomes necessary given its importance and is the only objective that guides to decisions that later leads to enhancing outcomes for all stakeholders. They contend that distinguishing countless stakeholders including their needs is not a feasible obligation for managers. However, with regards to earnings management, Mattingly, Harrast, & Olsen, (2009) find that effective stakeholder management by organisations results in higher EQ, and managers are less inclined to participate in discretionary earnings management. Therefore, the overall criticisms of stakeholder theory are that there is an unrealistic belief that managers should meet the demand of various stakeholders' interests. It will be difficult to treat all stakeholders equally.

Despite the fact that evidence of corporate governance practices exists in advanced economies, there is evidence of few and inadequate studies on corporate governance in Nigeria as a developing nation (Adeyemi & Fagbemi, 2010). However, this study seeks to provide evidence that supports the argument on corporate governance as a wealth maximisation tool of shareholders, and in the same vein it may as well satisfy the needs of the firm's stakeholders.

## 3.10 Summary of the Chapter

This chapter made a critical review of the related literature of theoretical and empirical studies related to board characteristics, the audit committee characteristics, debt structure (leverage), earnings management and value relevance of earnings. Specifically, the leverage as a moderating variable was extensively discussed to justify its moderating role in CG and FRQ. The study provides an overview of the agency theory, staewardship theory, resource dependency and stakeholder thoeries of corporate governance. The theoretical justification that would enable the study establishes relationships between board characteristics and financial reporting quality and the characteristics of the AC and FRQ were presented and discussed.

# CHAPTER FOUR
# CONCEPTUAL FRAMEWORK AND HYPOTHESES DEVELOPMENT

## 4.1 Introduction

Corporate governance is considered to be the basis of the research; as such, this chapter aims to explain the conceptual as well as the theoretical framework related to the corporate governace variables. The theoretical framework of the study will enable understanding of how the findings of the study are related to the research questions and hypotheses. However, despite the theoretical arguments that the relationships which exist between principal and agents are believed to have played a significant role in improving firm performance. Factors such as pressure, opportunity and ethics including self-interests may lead agents to manipulate financial reports, irrespective of the relationship between them (Albrecht et al., 2004).

## 4.2 Conceptual Framework

Figure 4.1 depicts the conceptual framework of the study representing the relationship between dependent, independent, control and moderating variables.

Figure 4.1 below is the conceptual framework of the study.

**<u>Conceptual Framework</u>**

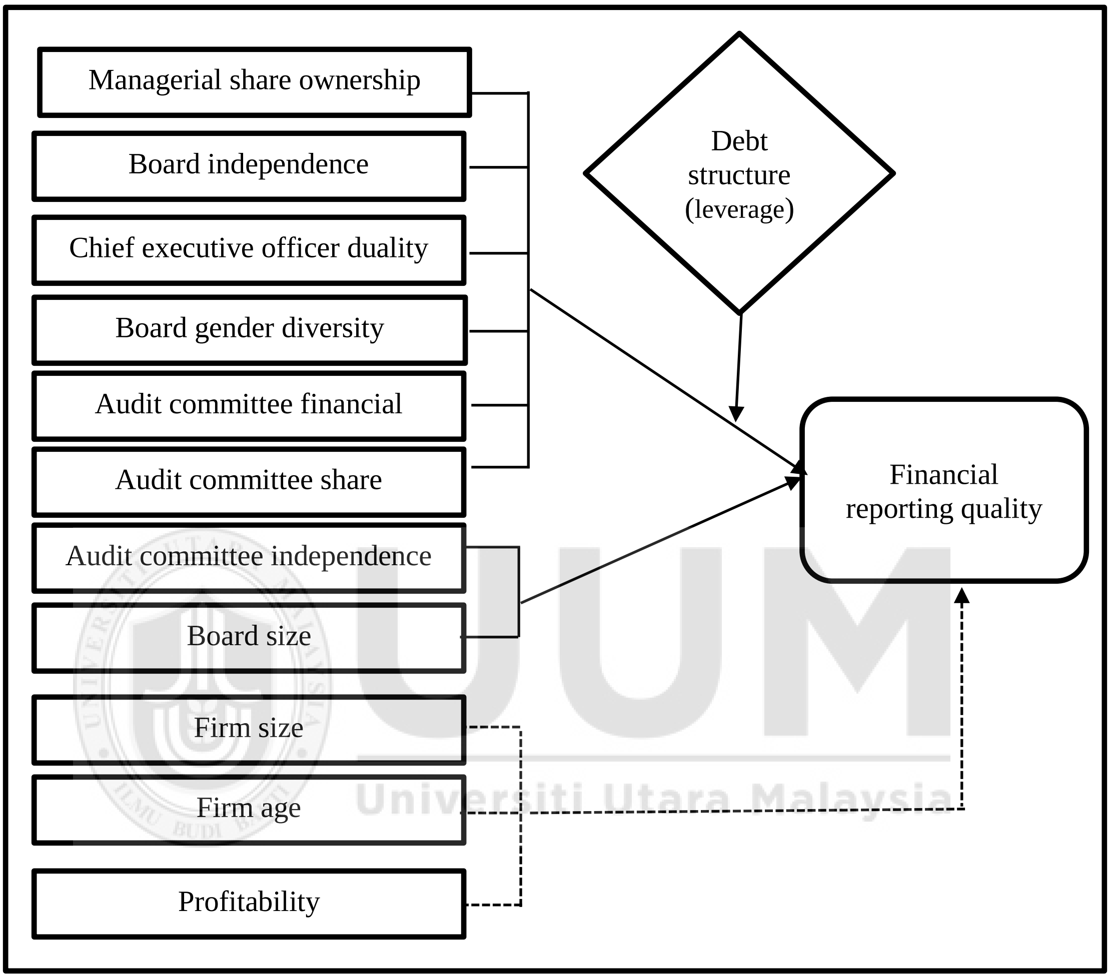


Figure 4.1
*Conceptual framework*

Figure 4.1 above, shows financial reporting quality (proxy with earnings management and value relevance) as the dependent variable, and board independence, CEO duality, managerial share ownership, board size, board gender diversity, audit committee financial expertise, audit committee independence, and audit committee share ownership as independent variables. Firm size, firm age, and profitability as control variables. Leverage moderates[1] the relationship between the CEO duality, board independence, board gender diversity, managerial share ownership, audit committee financial expertise, audit committee share ownership and earnings management.

[1] The moderation was based on earnings management model.

The conceptual framework depicted in Figure 4.1 seeks to establish a direct relationship between BIND, MSOW, BS, CEO duality, LEV, BGD, ACIND, ACFE, ACSOW and FRQ (EM). It also seeks to establish an indirect relationship between BIND, MSOW, CEO duality, BGD, ACFE and ACSOW and LEV as interacting variables with FRQ (EM). Further, a direct relatioship between three control variables of firm size, firm age and profitability are and FRQ (EM) are conceptualised.

Specifically, five hypotheses to test the direct relationship between board characteristics and earnings management (H1a, H1b, H1c, H1d, and H1e) were developed. Subsequently, a second set of hypotheses that proposes to test the relationship between AC characteristics, and earnings management (H2a, H2b, and H2c), and between leverage and earnings management (H3a) were developed. The third set of hypotheses seeks to ascertain the moderating effect of debt structure (leverage) on the relationships between board characteristics (H4a, H4b, H4c, H4d), AC characteristics (H5a, H5b), independent t-test (H6) and FRQ. Overall, sixteen hypotheses are developed and tested for this study.

## 4.3 Theoretical Framework

Agency theory assumes that agency costs are borne by managers (either in diffused ownership or concentrated ownership firms). The manager (agent) is working as a representative of the owners/shareholders (principal), and whose actions, and decisions may not be observed by the shareholders or are not being made aware to the shareholders. This creates information asymmetry between shareholders and the agents that are regarded as principal and agent problem. The asymmetric information could lead to moral hazard and/or adverse selection. Adverse selection occurs as a result of different information provided by the agent that caused the principal to incur undesired costs as a consequence of the imperfect information. Meanwhile, moral hazard occurs as a result of risk taken by the principal that results in costs associated with that risk, which the agent is insulated from. Thus, information available to him makes him protected from the negative consequences of the risk.

Under agency costs, managers maximise their utility at the expense of investors that is known as information asymmetry, which is an example of agency costs (Jensen & Meckling, 1976). In the context of information asymmetry, the accounting information is demanded by investors for the aim of valuation, investment decision and ensuring that their investments are not expropriated (Fama & Jensen, 1983). This is in support of agency theory which predicts that, if managers own a substantial percentage of firm equity they need not be monitored (Jensen & Meckling, 1976). In other words, managerial share ownership is an important monitoring mechanism in corporate governance. By offering part ownership of a firm's shares, a manager's interest is aligned with the owner's interest, as such managers need not be monitored to provide the positive performance and create value for the firm (Warfield, Wild & Wild, 1995).

Equally important is the audit committee that is considered as a monitoring device to reduce agency costs including the problem of information asymmetry (Chau & Leung, 2006; Jaggi & Leung, 2007; Tengamnuay & Stapleton, 2009). The audit committee is formed to supervise financial reporting process and monitor managers' behaviour to ensure they disclose more information that would minimise asymmetric information and mitigate moral hazard. Also, the governance mechanisms are aimed to ensure agent-principal interest alignment, protect the interests of the shareholder thereby reducing agency costs (Davis, Schoorman, & Donaldson, 1997). It thus suggests that corporate governance mechanisms can mitigate agency costs and ensure shareholder's interests are protected through monitoring management activities by aligning shareholder interests with those of the management. Also, issues bordering on board size, board of directors and structure of their ownership were developed to bring in line interests of the agent and that of the principal. Therefore, the aims of these mechanisms are geared towards improving the overall effectiveness of the oversight function of the board of directors.

Accordingly, resource dependency theory (RDT) recognises the directors as resource providers, because it assumes that multiple directorships, a high number of directors, specific industry expertise and skills of directors are valuable resources to both the firm's board and directors. These qualities may significantly support the directors to monitor and oversee the financial reporting process effectively. In RD theory, diversity of board members is seen as the essential element which leads towards the broader business connections (Siciliano, 1996) and firms with environmental dependencies are likely to have females on corporate boards as directors (Hillman, Shropshire, & Cannella, 2007). Similarly, board size can be explained by the resource dependence theory (RDT). The RDT sugggests that a larger board is associated with improved performance as a result of  diversity of expertise, experience and more knowledgeable members on the board (Pfeffer, 1972). Also, the stewardship theory (ST) provides an explanation that the corporate managers' (stewards) objectives are aligned with those of the company and its owners (Albrecht et al., 2004). It focuses on structures that empower and facilitate rather than monitor and control. Further, ST rejects the individualistic model of agency theory that promotes a suspicious attitude, which assumes shareholders and managers have diverse interests and sees managers as essentially self-serving and self-centred.

Thus, they also discard the view that shareholders need to monitor the agents with sanctions or incentives in the form of control. Thus, stewardship theory takes an opposite perspective with agency theory. It suggests that the agents are trustworthy and good stewards of the resources entrusted to them, which makes monitoring unnecessary (Donaldson & Davis, 1994; Davis et al., 1997). Consequently, the ST regards managers' decisions are prejudiced by non-financial reasons, which includes the need for achievement, the intrinsic factors of successful performance, and respect for authority and work ethic.

Similarly, ST considers the board of directors as an instrument of assistance to a steward CEO instead of a controlling mechanism (Albrecht et al., 2004). It also recognises that the agent is unlikely to manipulate earnings. Besides, CEO duality, that is, the same person holding the position of chair and chief executive, is viewed favourably since it is argued that it leads to better firm performance as a consequence of strong and unified leadership (Donaldson & Davis, 1994; Davis et al., 1997). Consequently, boards consisting of a higher number of outside directors (representing the agency theory perspective) perform worse than companies with fewer outside directors (Bhagat & Black, 1999). Accordingly, the board audit committee has been defined differently and in many contexts. For example, Kallbers and Fogarty (1993, p. 27) define AC as "the competency with which the audit committee carries out its specified oversight responsibilities". Thus, an audit committee is the one that can perform its roles and duties effectively and add value to the board of directors and firm as well.

Therefore, this study viewed AC as a committee with a specific composition, expertise, sound board governance attributes, and ownership to safeguard the transparency, accountability and oversight of the financial process. The responsibilities of AC have evolved for some time following the recommendations from several committees such as the Treadway Commission, BRC, Cadbury Committee and SEC Code of CG, intended to enhance the effectiveness of the audit committee (Baxter, 2010; Rahmat et al., 2009; Rainsbury et al., 2008). Rezaee and Farmer (1994) identified three important developmental roles of AC over time. Before the mid-1970s, the primary function of the committee was to enhance external financial reporting process by providing the effectiveness and efficiency of the audit function. Since the mid-1970s, the potential for the audit committee to play a governance role in a full committee has been recognised. Although the roles normally performed by audit committee vary based on the BoD charter, such roles can be classified into financial reporting process, internal auditors' responsibilities and the external auditors' activities, and corporate governance responsibilities.



Secondly, eight years after SEC CCG (2003), the Nigerian Securities and Exchange Commission revised the code (i.e. SEC CCG, 2011) aimed at strengthening the audit committee and ensuring that audit committees are discharging their responsibilities effectively. Unlike the previous code (2003), the revised code (2011) introduces the best practices for the audit committee including the condition that three of the AC members should be non-executive with at least one financially literate member. Thus, it is necessary to check the extent of the implementation of the revised code (2011) of Nigerian public listed firms and to examine whether the revised code (2011) has increased the effectiveness of AC monitoring roles. Thirdly, the global high-profile corporate failures leading to the investor's loss of confidence in the corporate reporting and transparency. These failures drew global attention that focused on board

AC because they are the key decision-making body expected to monitor financial reporting practices. The recommendations of SEC review committee, 2010 consider the oversight of financial reporting process and integrity of such reporting to be the major function of corporate audit committees.

Fourthly, audit committee share ownership signifies the AC member equity holdings in the company. Previous studies have documented the potential effects of AC members' share ownership in the monitoring of financial reporting process of a firm. However, Shivasani (1993) and Mangena and Pike (2005) argued that by having AC members with share ownership, it can lead to higher vigilance that may ultimately motivate them to ensure company performance. This is possible due to their stake in the company and as NED on the AC, they may be motivated and effectively assist in improving the financial reporting process. Further, this argument is supported from the agency theory perspective, where agents are driven by their interests and would always try to pursue and further move towards achieving set objectives. Therefore, any percentage increase in their stake (shareholding) of the company would encourage higher monitoring and control of management activities (Jensen, 1993).

Fifthly, an independent director is an outside director who does not have strong psychological and economic dependence on firm's management (Baysinger & Hoskisson, 1989). Independent audit committee members are highly reputable members of the business community who view the directorship as a means to develop their reputation as experts in decision control. Also, independent directors bear reputational risks and potential monetary losses similar to those of non-independent directors but receive lower direct compensation (Romano, 1989). Independent audit committees are more likely to confront management rather than agree with them under all circumstances in the issues relating to providing required information. Strong commitment to such matters will help ensure high-quality financial reports and ultimately reduce the probability of reputational damage and litigation losses for the independent audit committee members, which could eventually occur due to any financial failures (Haniffa & Cooke, 2002).

As a whole, this study proposes that board independence, managerial share ownership, board gender diversity, chief executive officer duality and size of the board have direct effects on the firm's financial reporting quality. It further proposes that financial expertise, independence and equity ownership of individual audit committee members influence the effectiveness of audit committee that affects the level of earnings quality leading to the financial reporting quality of the firms. The study also proposes that the leverage moderates the relationships between board independence, managerial share ownership, CEO duality, board gender diversity, AC share ownership and AC financial expertise. These relationships are modelled in Figure 4.1.

## 4.4 Hypothesis Development

Board of directors role can be seen from the perspective of reviewing business and corporate strategies leading to policy-making, planning, supervision, and monitoring. It also makes decision processes that provide the company with specialist advice, and establishes core values and procedures for effective performamnce of managers.

### 4.4.1 Board Independence (BIND) and Earnings Management

Board independence is the presence of majority independent non-executive directors (NED) on the board. Most governance Codes require listed firms to have on board a mixture of ED and NEDs. The Nigerian SEC Code 2011 provides that the board must compose of a mixture of Executive and Non-Executive directors with majority non-Executive directors. The monitoring role of the independent board is aimed to reduce managerial entrenchment at the expense of the shareholders. The board monitoring is one of numerous mechanisms that assist resolve agency problems involving managers and shareholders and help to minimise agency cost.

However, resource dependency theory (RDT) views the role of the board as one that helps to secure and acquire the essential resources of the organisation by their external linkage to the environment. Through these linkages, it brings in resources, such as information, skills, access to supplies of raw material, the buyer of outputs, public policy makers, social groups as well as legitimacy

(Hillman & Dalziel, 2003). Consequently, under this theory, the board of directors is the key source of different resources provision that improves organisation operation, firm's performance and organisational survival (Daily & Dalton, 2003). In support of Resource dependency theory (RDT), Khan and Kotishwar (2011) document that INED of the company monitor and control the chairperson/chief executive and serve as a link between an external environment that provides an international perspective. In this regard, NED tries to improve board processes and bring in specialist knowledge. They also ensure continuity, and help identify alliance and acquisition. Thus, NED help maintain an ethical climate in the organisation.

According to Lo, Wong and Firth (2010), firms that have a high proportion of INED on the board have a low level of transfer prices manipulation. This study is consistent with Firth et al. (2007) and Rubin and Segal (2012) that document high proportion of INED's presence on the board improves the quality of earnings. Erena and Tehulu (2012) who found that firms with a greater proportion of outside directors have less income-increasing accruals when earnings fall below the threshold. In other words, outside directors are more concerned with constraining the income increasing accruals.

Similarly, Uadiale (2012) finds that the board composition with a greater proportion of outside directors reduces EM practices. In contrast, Sukeecheep et al. (2013) find board independence to have a positive association with EM.

Besides, their number and corporate experience afford them the opportunity for effective monitoring and control of managers. Kantudu and Samaila (2015) find that a high percentage of NED is a necessary control and monitoring mechanism for quality financial information. This is so, because IDs are less tied to managerial influence, which enables them to monitor managers more efficiently. Based on the above results, this study proposes that:

H1a**:** There is a negative relationship between board independence and earnings management.

**4.4.2 Managerial Share Ownership and Earnings Management**

Managerial share ownership represents managers' interest in the equity of a company. The relationship between managerial share ownership can be theoretically explained by agency theory. According to Jensen and Meckling (1976) and Fama (1980), one way of aligning shareholders and managers' interest is by allowing managers to own part of company shares. Jensen and Meckling (1976) introduced managerial shareholding as an internal control mechanism for reducing agency conflicts between principals and agents due to alignment of principal and agent interests. Hence, equity ownership of managers will assist to align the interest of shareholders and managers. It will further minimise agency problems and consequently increase firm value. Furthermore, to reduce the level of information asymmetry, managerial share ownership may improve the alignment of owners and managers interests, which can mininmise the asymmetric information and increase firm performance. A study by Warfield, Wild and Wild (1995) documented that interests of shareholders and management start to converge as the management holds a percentage of the firm's equity ownership. This suggests that since managers' interest is aligned with the owner's interest, they need not be monitored to provide the performance and value of the firm.

Nevertheless, Pedro and Emma (2007) find that managerial ownership contributes in curtailing EM with a smaller percentage of shares held by managers. When managerial share ownership becomes large, it has an inverse effect on the DA and earnings informativeness. Further, Smith (1990) established the presence of a positive relationship between managerial share ownership and firm performance, and that top-performing companies tend to have managers with high ratios of stock ownership, while weak ones do not. Thus, the profitability of firms increases significantly when managers own part of the shares of the firm.

Consequently, Johari et al. (2008) and Nedal, Bana, and David (2010) documented the positive relationship between management ownership and DA. In addition, Alves (2012) finds that managerial share ownership positively affects the quality of earnings and reduces EM. Based on the above empirical relationships between managerial ownership and EM, and also the theoretical support of agency theory, this study formulates the following hypothesis:

H1b: There is a positive relationship between managerial share ownership and earnings management.

### 4.4.3 Board Size and Earnings Management

Board size relates to the total number of directors on the board of a company. Board size may vary in size, from a minimum of five (5) or six (6) members to large memberships of 20 and above depending on the institutional settings, complexity of the firm and shareholding. From the regulatory standpoint, in Nigeria the SEC, CCG, 2011 provides for a minimum of five (5) members without a maximum number of directors on the Nigerian public listed boards. Consequently, from the agency theory perspective, effective control of agents would be lost in larger firms, as such, the principal needs another party (Board) to assist in the control and monitoring of agent's actions. Jensen (1993) documents that quality decision making process and effective control and monitoring management behaviour lies with smaller boards. Hence, agency conflict would be reduced and costs minimised.

Similarly, board size can be explained by the Resource Dependence Theory (RDT). The RDT sugggests that a larger board is associated with improved performance as a result of diversity of expertise, experience and more knowledgeable members on board (Pfeffer, 1972) . Also, previous empirical studies (Haniffa & Hudaib, 2006; Anderson et al., 2004; Williams, Fadil, & Armstrong, 2005) find a positive relationship between some directors and board monitoring as specialised skills are associated with larger boards that are well equipped to monitor management. Klein (2002) argues that board monitoring has a positive association with the distribution of responsibilities among members of the larger boards. To achieve that, it strongly depends on the size of the board that has the required expertise to accept and handle such responsibility (Barton, Coombes, & Wong, 2004; Hashim & Devi, 2008c; Hashim & Ibrahim, 2013; Rajagopalan & Zhang, 2008; Sama'ila, 2014). Furthermore, Xie et al. (2003) found that EM is unlikely in firms with larger boards.

On the other hand, Hassan and Bello (2013) revealed that board size has a significant positive relationship with the extent of voluntary disclosures. The larger the board, the higher the disclosure of financial information. Meanwhile, Amran and Ahmad (2009) documented that a smaller board is more favoured than the larger board in Malaysian family-controlled businesses. In addition, Sivarama, Krishnan and Yu (2008) found that small boards have a predisposed inability to detect EM. It therefore suggests that smaller boards are vulnerable to influence by block holders on the board or management since bigger boards are better able to monitor and control management.

In contrast, Kao and Chen (2004) and Rahman and Ali (2006) found a significant positive association between board size and EM. Based on the above empirical support, both positive and negative relationship between board size and EM are established. Following the competing views about the relationship between board size and earnings management, subsequent Xie et al.'s (2003) study makes no prediction on the direction of the relationship between board size and earnings management. In other words, board size can influence earnings management either in a positive or a negative direction. Hence, the study formulated the following hypothesis:

H1c: There is a relationship between board size and earnings management.

### 4.4.4 Chief Executive Officer Duality and Earnings Management

The issue of role separation between the chairperson and CEO is rooted in agency theory and the stewardship theory (Lin, 2005; Kim, Al-Shammari, Kim, & Lee, 2009). However, proponents of CEO duality argue that it would compromise the independence of the board as well as impairs its oversight governance functions (Davidson et al., 2004; Elsayed, 2010). Petra (2005) argues that it is unreasonable to believe that the CEO/Chairman will evaluate himself objectively if he is allowed to take up the two responsibilities. Thus, CEO is grounded in the agency theory, which suggests that splitting the two responsibilities is desirable to make the board more independent (Fama & Jensen, 1983).

Furthermore, proponents of CEO duality rely on the premise that if allowed, board independence would be compromised, and board's oversight functions will be impaired (Coombs & Wong, 2004; Gul & Leung, 2004; Dey, Engel, & Liu, 2011). Moreover, CEO duality may be an entrenched strategy aimed at advancing personal interests rather than company's overall interest. Therefore, vesting the two responsibilities could undermine the effectiveness of the board (Gul & Leung, 2004). Further, Petra (2007) maintained that the absence of distinct role separation could render the board ineffective and suggests a lack of board independence. Thus, monitoring and decision-making process would be shouldered on one person, which makes it unreasonable to believe for an objective evaluation of his actions. Similarly, Abdul Rahman and Haniffa's (2005) findings reveal a significance in preventing EM when the CEO and board chairperson's role are separated. Moreover, firms with CEO duality reported higher earnings smoothing practices. Further, firms with CEO duality positively relate to EM and reported poor performance.



From the stewardship theory perspective, the stewardship theorists concentrate on structures that enable and encourage as opposed to monitoring and control. They dismiss the profoundly individualistic model of agency theory that advances a suspicious approach, expect that principals and agents have unique interests and sees agents as essentially serving toward oneself and selfish. Along these lines, they also dismiss the view that principals need to invigilate the sharp/opportunistic managers by observing them and applying sanctions or motivating forces as a method for control. Stewardship theory takes an opposite point of view in proposing that the agents are reliable and trusted stewards of the resources that are entrusted to them, which makes monitoring unnecessary (Davis, Schoorman, & Donaldson, 1997).

Since managers are not selfish and act in the finest interest of the shareholders, they ought to also be given freedom grounded on conviction and trust, which reduces the cost of monitoring their behaviour. It therefore implies that as far as the stewardship theory is concerned, managers are viewed as loyal, and their conduct does not have to be monitored. Therefore, the need for supervision is reduced and would be unnecessary with regards to the overall interests of the company (Tosi et al., 2003). Given the conflicting findings and theoretical viewpoint of agency and stewardship theories on CEO duality, this study proposes the following hypothesis:

H1d: There is an association between chief executive officer duality and earnings management.

### 4.4.5 Gender Diversity and Earnings Management

Advocates of women participation in public affairs suggest that the composition of the BODs should consist of members without discrimination as to sex, religion, ethnicity, race, and colour. Further arguments were advanced that such constituted boards are associated with higher quality deliberations than those composed solely of males, and such boards communicate more effectively.

Beyond participation, studies suggest that membership of women on the BOD enhances board performance and improves the quality of the financial report.

From the agency theory perspective, internal control mechanisms of CG center on the directors' monitoing role. Therefore, the presence of women on board may improve monitoring, because women have diverse perspectives in the form of knowledge, experience, and skills with different values, norms and understanding. Accordingly, Terjesen et al. (2009) stated that women directors provide knowledge, unique skills and experience to the Board. Therefore, a proportional number of women on board will help to improve board's monitoring role. Gul, Srinidhi and Tsui's (2008) findings lend credence to the argument that suggests that boards' female directors demand higher monitoring and credible financial reports. Similarly, Krishnan and Parsons (2008) find that companies that have more female senior managers do better in terms of profitability than companies with fewer females. The results show that gender diversity is positively associated with EQ. Thus, women directors are better able to provide quality monitoring role, minimise moral hazard following asymmetric information (agency problem) and reduce agency costs which will improve qualiity of earnings.

From the resource dependency perspective, diversity of board members is seen as the essential element which leads towards the broader business connections (Siciliano, 1996) and firms with environmental dependencies are likely to have females on corporate boards as directors (Hillman, Shropshire, & Cannella, 2007). Further, Hillman, Cannella and Paetzold (2000) document that female and African-American directors on US boards bring additional occupational resources to the board, in the form of legal expertise, public relations and marketing, in addition to being civic-minded community leaders. Subsequently, Bart and McQueen (2013) conducted a survey to determine women reliance on three reasoning methods of Personal Interest, Normative and Complex Moral Reasoning to make decisions. The study finds that the presence of female directors on boards is associated with corporate performance, and argue that women seem to make better directors than men. Similarly, the proponents of signalling theory argue that appointing a female to corporate leadership positions from being a director or member of AC sends a positive signal to capital market participants (Huang, Yan, Fornaro, & Elshahat, 2011; Thiruvadi, 2012; Ittonen, Peni, & Vahama, 2015). Therefore, female directors on boards would contribute to the firm's performamnce. Furthermore, Srinidhi, Gul and Tsui's (2011) findings indicate that EQ is higher with the presence of women directors. Thus, this study hypothesised that:

H1e**:** There is a relationship between board gender diversity and earnings management.

### 4.4.6 Audit Committee Financial Expertise and Earnings Management

Managers maximise their utility at the expense of shareholders, and this is recognised as information asymmetry, which is an agency cost (Jensen & Meckling, 1976). In regards to information asymmetry, investors demand accounting information for the purpose of valuation and investment decision to safeguard their investments (Fama & Jensen, 1983). Therefore, audit committees are viewed as a monitoring device to decrease agency costs and resolve the information asymmetry (Jaggi & Leung, 2007; Tengamnuay & Stapleton, 2009), by way of monitoring managers' behaviour. On the other hand, resource dependency theory views the directors as resource providers. It assumes a proportional number of directors and specific industry knowledge and experience of directors are valuable resources to the firm and directors. These features significantly help the directors to monitor and effectively oversee the firm's financial reporting process. Therefore, this study employed both the agency and resource dependency framework theories to assess and explain variations in the audit committee characteristics.



Accordingly, the experience and expertise of AC members are recently viewed as a critical aspect of the AC effectiveness in overseeing the process of financial reporting. It has been argued that AC members with financial/accounting expertise are likely to impact positively on financial reporting than members without such expertise (Davidson et al., 2004), hence, providing superior monitoring of the financial reporting process (Engel, Hayes, & Wang, 2010).

In Nigeria, the SEC CCG (2011) mandates firm's ACs to include at least one (1) member with knowledge of accounting or financial management on the ACs. It further requires the other members to have basic financial literacy, and also to have the ability to read financial statements. The Act avoids a requirement for a qualification but demands accounting and finance knowledge. Large scale businesses will find members with accounting and finance qualification to be essential and easy to get. However, small scale businesses may not require this. So far, the absence of an agreed definition of financial expertise suggests various measures to operationalise financial expertise. Lo, Wong and Firth (2010) observe that the presence of an accounting/financial expert in the AC has a significant positive association with FRQ measures. Furthermore, Badolato et al. (2014) argue that accounting/financial expertise and status of the committee members also make ACs more effective in reducing EM practices.



Consequently, Cohen, Hoitash, Krishnamoorthy, and Wright (2014) contend that industry experience together with financial expertise makes the AC highly efficient and improves FRQ. Additionally, Yang and Krishnan (2005) and Dhaliwal, Naiker, and Navissi (2010) show that financial accounting expertise is associated with fewer EM. Similarly, previous studies (Krishnain & Visvanathan, 2008; Salleh & Stwart, 2012; Abernathy, Herrmann, Kang & Krishnan, 2013) document further proof of a positive association between financial accounting expertise and EQ. Furthermore, Bédard and Gendron

(2010) argue that for ACs to be effective, it needs to have the right people. The right people indeed refers to having AC members that are qualified and competent to discharge the oversight functions of the committee. It shows that ACs play a greater role when AC members possess higher financial and industry expertise in enhancing the financial reporting process. Therefore, financial literacy is expected to improve the AC's effectiveness in monitoring earnings management (expertise). For these reasons, this study formulates the following hypothesis:

H2a: There is a negative relationship between the audit committee member's financial expertise and earnings management.

### 4.4.7 Audit Committee Independence and Earnings Management

From the perspective of resource dependency theory that views the directors as resources providers, it assumes a proportional number of directors and specific industry knowledge and experience of directors as valuable resources to the firm and directors. These features significantly help the directors to monitor and effectively oversee the firm's financial reporting process.

Thus, to ensure effective monitoring of the financial reporting process, the AC needs to be independent (Yang & Krishnan, 2005). In regards to information asymmetry, investors demand accounting information for the purpose of valuation, and investment decision to safeguard their investments (Fama &

Jensen, 1983). Hence, audit committees are viewed as a monitoring device to decrease agency costs and resolve the information asymmetry (Jaggi & Leung, 2007; Tengamnuay & Stapleton, 2009), by way of monitoring managers' behaviour. In this regard, INED within the AC is better at monitoring management than their insider counterparts (DeFond & Francis, 2005). Moreover, they are likely to monitor the financial reporting practices better and report a managerial misdemeanour. The independence of the AC is also a regulatory issue, where the Nigerian SEC CCG (2011) requires all listed companies to establish and maintain an independent AC.

Additionally, a review of previous studies (Vafeas & Waegelein, 2007; Mangena & Tauringana, 2008; Zaman, Hudaib, & Haniffa, 2011) provided evidence on the derivable advantages associated with highly independent ACs. Similarly, Bronson et al. (2009) and Kent et al. (2008) observed that higher AC independence is associated with higher accruals quality. Therefore, given the above findings from previous studies, the following hypothesis is proposed:

H2b: There is a negative relationship between audit committee independence and earnings management.

### 4.4.8 Audit Committee Share Ownership and Earnings Management

Audit committee share ownership represents the AC member's proportion of shareholdings in the company over total shares of the company. Accordingly, Vafeas (2005) posits that a negative association exists between the equity holding of an audit committee member and earnings management that is consistent with agency theory of decreasing information asymmetry, which would further reduce agency cost of monitoring. Furthermore, previous studies have documented the potential effects of AC members' share ownership in monitoring financial reporting process of a firm. These studies suggest the association between share ownership and FRQ effectiveness. In this regard, Shivasani (1993) argues that the consequences of having AC members with equity ownership can lead to more vigilance and greater monitoring that may ultimately motivate them to ensure company performance. Further, Lavelle (2002) argues that, AC members with greater percentage of shareholdings can be questioned, given their percentage equity holding which might be used to protect their investments.



Consequently, the relationship between AC shareholdings and FRQ is well supported from the agency theory perspective, where agents are motivated by their interests and would always try to pursue and further move towards achieving set objectives. Therefore, any percentage increase in their stake (shareholding) of the company would create more incentives to monitor and control management reporting (Jensen, 1993). Therefore, audit committee members with greater stock ownership are expected to be more effective in constraining earnings management. Based on the above empirical support that has established a positive relationship between AC share ownership, and also to the theoretical support of agency theory, this study formulated the following hypothesis:

H2c: There is a negative relationship between audit committee share ownership and earnings management.

### 4.4.9 Debt (Leverage) and Earnings Management

Debt financing is an alternate means of corporate financing. The other funding mixes are equity financing and the combination of both equity and debt financing that constitute the firm CS. Therefore, a continuous increase in debt financing creates the likelihood of bankruptcy, which involves the risk that may force managers' perquisites to decrease while their efficiency may also be likely to increase (Grossman, & Hart, 1982). Further, Chan et al. (2013) argue that the effective increase in leverage reduces firms' equity capital base. Since the leverage constrains management's ability to spend extravagantly, managers may decide to accept employing sub-optimal leverage aimed at reducing shareholders' wealth maximisation (Chang, 2013).

However, Jiraporn et al. (2012) argue that opting for sub-optimal leverage financing largely depends on the effectiveness and strong corporate governance. They further argue that, if a firm's corporate governance is weak, it is likely to employ more leverage in its finance. This is not suggesting that poor governance quality leads to higher leverage (Jiraporn et al., 2012). Conversely, Jelinek

(2007) argues that the increase in leverage reduces earnings management. Thus, the level of leverage has an influence on financial reporting quality. Similarly, Afza and Rashid (2014) document that long-term debt reduces EM activities as a result of high monitoring role by creditors.

Further, as leverage increases, manager's ability to manipulate earnings would decrease because leverage requires interest payments and debt repayment, which would lessen the availability of cash for non-optimal spending. Additionally, Rahman and Ali (2006) posit that higher leveraged firms have higher bankruptcy risk, which might result in litigation risk. As a result, this creates an opportunity for the management to manipulate earnings to mitigate those risks. Further, Klein (2002) finds a positively significant relationship between firm's leverage and the level of abnormal accruals. Furthermore, prior studies (Jensen, 1986; Denis & Denis, 1993; Jelinek, 2007) suggest that leverage limits EM. Also, Davidson et al. (2005) found a positively significant relationship between DA and leverage.

Further, bond holders are not members of the board and do not participate in the governance of Nigerian companies, creating information asymetry between bondholders, boards and the management. Consequently, this study examined the impact of long-term debt (leverage) as a moderating variable between some governance mechanisms and FRQ. In support of this study, the agency theory has given enough evidence of using leverage to reduce asymmetric information and subsequently decrease agency cost.

Theoretically, agency theory explained the relationship between corporate governance, and leverage due to monitoring roles of debt holders. Similar to previous literature (Anderson et al., 2004; Efendi, Sirvastara & Swanson, 2007; Jiang, Lee & Anandarajan, 2008; Habbash, 2013) suggest that changes in leverage may have an impact on EM. Thus, leverage is measured by long-term debt to total assets of the firm. The following hypothesis is thus, formulated:

H3a: There is a positive relationship between leverage and earnings management in the Nigerian non-financial listed firms.

### 4.4.10 Relationship Between Leverage and Earnings Management

### 4.4.11 Moderating Effect of Debt structure on the Relationship Between Board Characteristics and Earnings Management

$H4_a$: Leverage moderates the relationship between board gender diversity and earnings management in the Nigerian non-financial listed firms.

.$H4_b$: Leverage moderates the relationship between board independence and earnings management in the Nigerian non-financial listed firms.

$H4_c$: Leverage moderates the relationship between managerial share ownership and earnings management in the Nigerian non-financial listed firms.

.H4$_d$: Leverage moderates the relationship between the Chief Executive Officer duality and earnings management in the Nigerian non-financial listed firms.

### 4.4.12 Moderating Effect of Debt Structure on the Relationship Between AC Characteristics and Earnings Management

H5$_a$: Leverage moderates the relationship between AC financial expertise and earnings management in the Nigerian non-financial listed firms.

H5$_b$: Leverage moderates the relationship between AC share ownership and earnings management in the Nigerian non-financial listed firms.

### 4.4.13 Pre and Post NGSEC Code of Corporate Governance 2011

There are some changes made on SEC code of corporate governance (2003) that resulted in the reviewed SEC code of corporate governance for public companies in Nigeria (2011). These changes brought about provisions in the governance roles of board of directors, audit committees characteristics (composition, independence & expertise). Besides that, risk management committee, introduction of whistleblowing policy and the rotation of external auditors were some of the significant changes provided in the revised SEC Code (2011). This implies that the impact of these changes on the financial reporting quality of listed firms needs to be empirically tested. Hence, the following hypothesis is formulated:

$H_6$: SEC Code of Corporate Governance 2011 has positively and significantly improved the quality of financial reporting in the Nigerian listed firms.

## 4.5 Summary of the Chapter

This chapter presents the conceptual framework of the study and hypothesised relationships between board characteristics, AC characteristics, and earnings management. Similarly, the study hypothesised the moderating effect of debt structure on the relationship between the board, AC characteristics, and earnings management. After that, the hypothesis was developed based on the gap identified in the literature on each of the predicting as well as the moderating variables.

# CHAPTER FIVE
# RESEARCH METHODOLOGY

## 5.1 Introduction

This chapter presents the research method employed in the study. It explains the research design, population of the study, sources, data collection procedure and techniques of data analysis. It also describes the operational definitions of the variables used in the study and highlighted sources of measurement.

## 5.2 Research Design

The research design is the action or strategy that involves gathering of data for examination in line with the objectives of the study (Toledo-Pereyra, 2012). The research design has different dimensions, the choice of which depends on the objectives of the study (Stapleton, 2005). Having identified the research questions and objectives that form the basis of the research problem and developed research hypothesis as a tentative answer to such questions, next is to design research in such a manner that would enable data collection and analysis to prove the hypothesis empirically.

The dimensions of research design include descriptive research design, survey research design, experimental research design, historical research design, and case study research design (Mckenney, Akker, Gravemeijer, & Nieveen, 2006). However, this study utilised descriptive research design that examined CG (IV) and FRQ (DV) as well as the moderating effect of debt structure (DS) on the relationships between the IVs above and DV. The study therefore used archival data extracted from the annual financial reports of NGSEC (NSE). An examination of the annual report and accounts of the sampled companies provided the necessary information required for CG, debt structure, and FRQ. The research design proved most appropriate for the measurement of the effect of CG that is related to FRQ, which is moderated by debt structure of the listed non-financial companies in Nigeria.

## 5.3 Population of the Study

The study population comprised of all the non-financial companies listed on NGSEC for five consecutive years (2010-2014). The basis for the determination of the study population is based on the firms listed on the Nigeria Stock Exchange as at 31st December 2010. At present, there are eleven (11) categorised sectors of companies listed and trading on the NGSEC trading floor. Ten out of the eleven sectors are non-financial, with a total of one hundred and thirty (130) companies. Moreover, this study excluded financial institutions from the population, due mainly to the fact that the sector is regulated by Central Bank of Nigeria (CBN) Code of CG (2006), while, SEC Code of CG (2011) governs all public listed companies in Nigeria. Further, the financial institution's financial reports are presented in a different format with different financial information disclosure requirements.

Therefore, four-point filters were used in arriving at the working population. First, a company must have been listed on the NGSEC, on or before 31 December 2010. Secondly, it must have been quoted without being delisted between 2010 and 2014. Thirdly, any company with missing data is discounted and fourthly, all financial and corporate governance variables relating to the study must have been published and publicly available for the relevant years. In this regard, the research employed all the four filters to arrive at the working population. The choice of 2010 as the base year is because it was recorded that a substantial number of corporate failure of firms in Nigeria occurred due to poor CG practices. Besides that, the measures are set to ensure that all the firms within the population of the study have consecutively available published annual financial reports for the period of the research. The population of the study is one hundred and thirty-one (130) non-financial listed companies.



## 5.4 Sample Selection

This study sets out its sample in longitudinal form. Therefore, the annual reports of all listed non-financial companies in Nigeria were considered from 2010 to 2014. However, firms not listed by the Nigerian Securities and Exchange Commission in any of the years under consideration were excluded. Also, only those companies that have all the available data for the relevant consecutive five years were considered. In this regard, the study utilised publicly published data for the five consecutive years of 2010-2014. Therefore, the sample size of the study was arrived at by employing the filtering techniques on the population.

The samples' financial information are obtained from the published annual report of the companies and their respective websites. Also, corporate governance variables information are collected from NGSEC corporate and its Kano state branch offices. There are 130 non-financial companies out of the 193 NGSEC listed companies as at 2010. However, out of 130 non-financial listed companies, 101 companies constitute the sample of this research. The remaining 25 companies failed to meet the filtering requirements of this research due to non-disclosure of the corporate governance variables and other information needed for this study. Such information includes audit committee independent non-executive director (member) share ownership, non-availability of a detailed profile of directors on the board that spells out their qualifications and managerial experiences, and financial information without the corporate governance report that should accompany such financials.

Furthermore, companies whose full five years annual reports could not be accessed including those delisted between 2010 and 2014 were excluded from this study (Appendix A-D). Similarly, companies from the Construction/Real Estate that were hitherto mortgage/building fund companies between 2010 and 2014 such as Union Homes Loans and Savings were excluded. Thus, the sample size of 101 non-financial NGSEC listed companies with complete information on financials and corporate governance reports required by this study for the period of 2010-2014 constitute the sample size of this study. Furthermore, the

101 companies involved in this research emerged from 10 out of the 11 industry groups generated over a period of five (5) years (2010 to 2014), which resulted in 505 companies-year observations.

## 5.5 Sources and Methods of Data Collection

The main sources of data for the study are the published annual reports and accounts of the companies, which were handpicked through the website of the sampled companies. Also, the Nigeria Stock Exchange Fact Book for 2010/2011 was also used. The handpicked data were obtained for the following: Board Independence (BIND), Managerial Shares Ownership (MSOW), Board Size (BS), Board Gender Diversity (BGD), Chief Executive Officer Duality (CEDU), AC Independence (ACIND), AC Financial Expertise (ACFE), and AC Share Ownership (ACSOW). Other data obtained from annual reports are the proxies of FRQ.



## 5.6 Definition and Measurement of Variables

The definitions as well as the measurements of the dependent and independent variables of the study are discussed below:

### 5.6.1 The Dependent Variable

The dependent variable is the financial reporting quality (proxy by earnings management) among firms in the Nigerian non-financial listed firms. Besides that, there are many financial reporting quality proxies grounded on properties of reported earnings, comprising of accruals quality (earnings management), earnings smoothing (e.g., Ronen & Sadan [1975], Leuz, Nanda & Wysocki [2003], Francis et al.[2004]), earnings persistence (e.g., Penman [2001], Dechow & Dichev [2002], Francis et al., [2004]), and the value relevance (Easton & Harris, 1991; Ohlson, 1995; Collins, Maydew & Weiss,1997; Francis & Schipper,1999). Some of these proxies focused on aspects of firms' reported earnings while others focused on accruals as discussed below:

### 5.6.2 The Financial Reporting Quality

Financial reporting quality is related to the most important aspects of quality of the reported earnings. Investors and stakeholders consider firm's performance through its financial report. The quality of the report depends on its reliability that translates into investment decision (Zalewska, 2014). Thus, this emphasises the need to provide relevant information, which is crucial for efficient markets, the absence of which Zalewska (2014) argued encouraged market manipulation. Nevertheless, accrual accounting provides relevant and useful information on companies' financial performance, yet the process is based on assumptions, such as judgment and accounting discretion. Perhaps, earnings management and accrual-quality proxies are frequently used measures for some time on company's reported earnings by Healy (1985), Jones (1991), and the modified Jones model presented by Dechow, Sloan, and Sweeney (1995). These were followed by Dechow and Dichev (2002) and subsequently has been modified by McNichols (2002), and Francis et al. (2005). However, subsequent accrual quality models are mostly modifications to the previous AQ models.

### 5.6.3 The Accruals Quality Models

#### 5.6.3.1 The Jones (1991) Model

Earnings quality proxy developed by Jones (1991) received popular usage as a model. The emphasis of the model is calculating the discretionary part of total accruals, which used earnings management as a measure. To control for changes in the firm's economic circumstances, Jones (1991) used changes in revenue and plant and property all over assets. Moreover, to control for changes in non-discretionay accruals (NDA), revenues and plant property and equipment were included in the model using OLS regression.



$$TAC/Ait\text{-}1 = \alpha_1 (1/Ait\text{-}1) + \alpha_2 (\Delta REVit/Ait\text{-}1) + \alpha_3 (PPEit/ Ait\text{-}1) + \mu it\text{-}_1.$$

Where:

$TAC_{it}$= total accruals for firm i in year t.

$A_{it-1}$ = total assets for firm i in the previous year.

$\Delta REV_{it}/A_{it-1}$ = change in revenues from i in year t.

$PPE_{it}/ A_{it-1}$ = gross property and equipment for firm i in year t.

$\mu_{it}$ = error term for firm i in year t.

This discretionary accruals estimation as shown above is calculated using the difference between total accruals and the non-discretionary component of accruals, i.e. normal or expected accruals.

The model is as follows:

$DA_{it}$= $TAC/A_{it-1}$ - [$\alpha_1$ ($1/A_{it-1}$) + $\alpha_2$ ($\Delta REV_{it}/A_{it-1}$) + $\alpha_3$($PPE_{it}/A_{it-1}$)].

Subsequently, Jones model (1991) was criticised due to its indirect measures of accruals quality but was further modified by different scholars who made a strong argument against Jones model to lend credence to their model (Schipper & Vincent, 2003; Francis, LaFond, Olsson, & Schipper, 2005).

**5.6.3.2 The Dechow, Sloan and Sweney (1995) Model**

The arguments advanced against weaknesses in Jones model preceded the modified method, employed to address the measurement of EQ shortcomings of Jones (1991) model by adopting the direct approach. DeFond and Jiambalvo (1994) brought an improvement in the Jones (1991) Model. DeFond and Jiambalvo's (1994) contribution emphasised on separating regression coefficients for every sector, which they argue offer better results. Dechow, Sloan, and Sweeney (1995) made a similar effort in improving Jones (1991) model by adding receivables which made it the most widely used model by scholars. The model is commonly called Modified Jones Model.

In the estimation period, the normal accruals are:

$TAC/Ait\text{-}1 = \alpha_1\ (1/Ait\text{-}1) + \alpha_2\ (\Delta REVit/Ait\text{-}1) + \alpha_3\ (PPEit/\ Ait\text{-}1) + \mu it\text{-}1.$

In the event period, the accruals are: DAit= TAC/Ait-1 - [α1 (1/Ait-1) + α2 (ΔREVit/Ait-1 - ΔRECit/Ait-1) + α3 (PPEit/ Ait-1)].

Where ΔREC= is a change in accruals receivable for firm i in period t, and other variables are as previously defined

#### 5.6.3.3 The Dechow and Dichev (2002) Model

Dechow and Dichev (2002) suggested another method that became widely accepted in assessing the accrual and accruals quality proxies for financial reporting quality.

The equation measuring the accruals quality is as below:

$\Delta WC_t = b_0 + b_1 CFO_{t-1} + b_2 CFO_t + b_3 CFO_{t+1} + \varepsilon_t$

Where: CFOt-1= cash flow from last year, CFOt = cash flow of the present year and CFOt+I = cash flow of the future year.

They specifically introduced a modelled change in working capital accruals, changes in accounts receivable added to changes in inventory, fewer changes in accounts payable minus tax payable added to changes in cash flow from operations and changes in other net assets. The use of working capital accruals in the model is restricted to the firm’s main activities to measure accrual quality. Accordingly, working capital will be converted into cash within a year. Error terms contain estimation error while standard deviations constitute the accrual quality measure of the model.

#### 5.6.3.4 The McNichols (2002) Model

On the other hand, McNichols (2002) criticised Dechow and Dichev (2002) Models due to its disregard for distinguishing discretionary from non-discretionary accruals and argue that this distinction used by Jones (1991) Model should be reflected in developing any accrual model. McNichols (2002) further argues that Jones (1991) Model ignored changes in earlier years' sales as well as changes in the following years' sales. The Model considered changes in working capital accrual influenced by the current year change in sales. McNichols asserts that the model is not sufficient enough to evaluate accrual quality because it ignores changes in working capital accrual for the previous and following year periods (Yurt & Ergun, 2015). Moreover, McNichols' (2002) measure is aimed at modifying the Jones (1991) model by using regression technique with total current accruals, cash flows in previous, current, and subsequent years along with revenue, plant, property and equipment changes as explanatory variables.

$\Delta WCit = \beta_0 + \beta_1 CFO_{it-1} + \beta_2 CFO_{it} + \beta_3 CFO_{it+1} + \beta_4 \Delta Sales_{it} + \beta_5 PPE_{it} + \alpha_{it}$

Where: ΔWCt = ΔWorking capital in year t i.e. ΔAccounts receivable + ΔInventory - ΔAccounts payable - ΔTaxes payable + ΔOther assets (net);

CFOt-1 = Cash flows from operations in year t – 1;

CFOt = Cash flows from operations in year t;

CFOt+1 = Cash flows from operations in year t + 1;

ΔSalest = Sales in year t less sales in year t – 1;

PPEt = Gross property, plant and equipment in year t

### 5.6.3.5 The Francis et al. (2005) Model

Francis et al. (2005) divided earnings management measure into discretionary and non-discretionary elements and computed accruals based on discretionary and non-discretionary, which estimates a regression of firms' characteristics affected by accruals quality. In doing that, the discretionary part of the accruals quality, i.e., the regression equation is depicted thus:

$AQ = \beta_0 + \beta_1 SIZE + \beta_2 \sigma CFO + \beta_3 OperCycle + \beta_4 \sigma\ (SALES) + \beta_5 NegEarn\ (loss) + \varepsilon_{t...}$

Where:

SIZE = size of the firm

σ (CFO) = standard deviation of firm cash flow;

σ(Sales) = standard deviation of firm sales, calculated over the years;

OperCycle = log of firm operating cycle;

NegEarn(loss) = number of years, out of the period where firm reported NIBE<0.



Thus, previous studies on EQ measurement used various alternative methods (Jones, 1991; Dechow, Sweeny & Sloan, 2002; Dechow & Dichev, 2002; McNichols, 2002; Kothari et al., 2005; Francis et al., 2005) to estimate EQ using proxies such as earnings management.

As a result, McNichols' (2002) model assumed deterioration of EQ as a result of management's intentional and unintentional errors in accruals estimation. Hence, it uses the error term to measure accrual and earnings quality and suggested that as an alternative test, it better explained earnings management (Yurt & Ergun, 2015). However, Dechow, Hutton, Kim and Sloan (2012) identified weaknesses of EQ measurements adopted by these researchers. They argued that even though procedures for matching performance were adopted by the previous models to mitigate misspecification, the result is reducing the test power substantially. It is evident that there were improvements made to Jones' 1991 model by subsequent researchers on EQ proxied by earnings management (Dechow et al., 1995; Dechow, Sweeny and Sloan, 2002; Dechow & Dichev, 2002; McNichols, 2002; Kothari et al., 2005; Francis et al., 2005).

Thus, Dechow et al. (2012) suggested another approach for earnings management detection. They argue that substantial improvement would be recorded using the new method, due to its test power and test specification. Nevertheless, Dechow et al.'s (2012) model imposes data requirements that are impossible to meet in the Nigeria settings. Hence, test of Dechow et al. (2012) model will require approximation of the model's requirements. The consequences of such approximations on the model's predictions are difficult to assess. Not that the model is wrong, but it is untestable and is beyond the scope of the current study.

In view of the inconsistency stemming from the diverse FRQ proxies used in the various studies, and inability to identify a dominant measure for 'financial reporting quality' in the literature (Pomeroy & Thornton, 2008), this study found the McNichols (2002) model as most appropriate in explaining accruals quality measure for non-financial firms in the relationships between the dependent and independent variables of the study. Further, McNichols (2002) used previous, current and subsequent years cash flows, changes in revenue, and PPE as IVs and as a result, measurement errors could be reduced significantly and at the same time increases the explanatory power of the initial Dechow and Dichev (2002) model and the Jones (1991) model. Therefore, the following regression model was used for each sample company within its industry group for the relevant years of interest.

$\Delta WCt = \beta_0 + \beta_1 CFO_{it-1} + \beta_2 CFO_{it} + \beta_3 CFO_{it+1} + \beta_4 \Delta Sales_{it} + \beta_5 PPE_{it} + \alpha_{it}$

Where: ΔWCt = ΔWorking capital in year t i.e. ΔAccounts receivable + ΔInventory - ΔAccounts payable - ΔTaxes payable + ΔOther assets (net);

$CFOt\text{-}_1$ = Cash flows from operations in year t – 1;

CFOt = Cash flows from operations in year t;

$CFOt+_1$ = Cash flows from operations year in year t + 1;

ΔSalest = Sales in year t less sales in year t – 1;

PPEt = Gross property, plant and equipment in year t

Nevertheless, the study uses the residuals to measure FRQ proxy by earnings management. Conversely, the residual estimates the discretionary portion of the accrual quality. Hence, the lower the quality of earnings, the higher the absolute residual for each sample firm and vice versa. To enhance the robustness of the results, the study also employed value relevance model using price-earnings measure. Thus, the robustness test was applied to the sample of the study.

### 5.6.4 The Value Relevant Models

Traditional financial theory views value relevance as the value of a firm's equity as a representative of the present value of future dividends or free cash flows to equity. Hence, the primary objective of value relevance research is the study of the relationship between market values of equity and accounting variables. Accordingly, Ohlson (1995) documented that the value of firm's equity can be expressed as a function of its earnings and book value, thus: MVE = f (AI) (1), where:

MVE = market value of equity

AI = accounting information

The value-relevance of earnings and book value is characterised by the coefficient of these variables. The coefficient of earnings hinges on how well a firm's earnings can explain stock prices. The ability of earnings to explain stock prices can be influenced by its ability to reflect future earnings (Ohlson & Zhang, 1998). They further explain that the relative weight of earnings as compared to book value may differ subject to the permanence of earnings. Nevertheless, the combined weights of earnings and book value should remain unchanged for different accounting methods unless the accounting choice has an economic impact.

#### 5.6.4.1 The Price Model

One of the value relevance models is the price valuation model that uses price regression coefficient to analyse the relationship between the market value of equity and the book value of equity. The price regression proposed by Ohlson (1995) analyses the relationship between the market value of equity and the book value of equity. The regression is typically run on a per share basis:

$$P = \beta_0 + \beta_1 BVS + \alpha \quad (1)$$

P = stock price

BVS = book value per share

The residual income framework (1) shows that stock values can be estimated as a function of the book value of equity and earnings. As such, earnings are included as a second variable in the price specification:

$$P = \beta_0 + \beta_1 BVS + \beta_2 EPS + \alpha \quad (2)$$

EPS = earnings per share

Equity evaluation is a major exercise for all stock investors. However, once funds have been invested in stock or a portfolio of stocks, the stock price is not necessarily of much interest. Therefore, the focus is on the investment return. The value relevance research devotes much attention to how the change in the market value of equity is related to value creation as measured by the accounting system. The regression specifications so far have implicitly assumed that aggregate accounting numbers like bottom-line earnings and book equity are the metrics of interest. However, these aggregated measures are sometimes disaggregated into components. Moreover, that value relevance can be analysed for financial statement information that is not part of an income statement or balance sheet. Such information includes, for instance, information from the notes or numbers from cash flow statements. Value relevance research includes time-series analysis and cross-sectional analysis as well as panel data analysis. The relationship between stock values or returns and accounting numbers can be examined from different time perspectives.

Accordingly, in regression analysis, the coefficient of determination ($R^2$) measures the proportion of variance in the dependent variable explained by the independent variable(s). Recently, the regression of price on the accounting variables measure is commonly used on per share basis (price-return). However, some researchers employ the $R^2$ to examine changes on the value relevance of accounting over time or whether there are differences in the value relevance across samples. If stock prices or returns are regressed on accounting variables, $R^2$ is a measure of how much variation in stock prices or returns is explained by the accounting variables analysed (Brown, Lo, & Lys, 1999). Hence, explanatory power is a measure of value relevance. The explanatory power of different samples is often compared to study the extent to which value relevance differs between samples. Similarly, studies employed comparisons of $R^2$s based on samples from different industries, accounting standards, comparing U.S. GAAP and other local regimes or across countries (Zeghal & Mhedhbi, 2006; Shi & Zhou, 2012). Consquently, Brown, Lo and Lys (1999) argue that there are severe problems connected to between-sample comparisons of $R^2$ levels and these comparisons may not be valid. They argue specifically, that scale effects present in price regressions increase $R^2$ and this effect increases in the scale factor's coefficient of variation.

Thus, differences in $R^2$, for instance, from samples drawn in different time periods may in part be motivated by differences in the scale factor's coefficient of variation. Brown, Kin and Lys (1999) controlled for the scale effect by running deflated regressions. They acknowledged that several scale proxies could have been chosen, but they argue that price at time $t_{-1}$ is the preferred choice. As such, they recommend using a version of the return regression rather than $R^2$.



**5.6.4.2 The Return-Earnings Model**

The goal of every investment is the cash flow generated by the investment. Thus, the VR of cash flows is used as a measure for assessing the usefulness of accounting values for stock investors. Most value relevance research focuses on the value relevance of earnings and the determinants of earnings return coefficients (ERC). The value relevance of earnings introduced by Easton & Harris (1991) employs the return-earnings model. The approach of return earnings is to examine the value relevance of earnings which is widely employed in existing studies (Gul, Lynn, & Tsui, 2002; Warfield & Wild, 1992;

Warfield, Wild, & Wild, 1995; Dunstan, Ismail, Keitha, & Zijl, 2013). The return earnings model is as follows:

$RETit = \beta_0 + \beta_1 E/P_{it-1} + \varepsilon_{it}$ where:

RETit is holding returns for a 12-month period before the financial year end for firm i in year t,

$E/Pit_{-1}$ is the earnings per share at the financial year end divided by the closing price 12 months previously for firm i in year t and all other variables are as previously defined.

### 5.6.4.3 The Disclosure Quality

The disclosure quality (DQ) is measured by an index aimed to assess the extent of compliance with the set parameters that are either weighted or unweighted. The disclosure indexes consist of the mandatory disclosure (Arnold & Matthews, 2002) and voluntary disclosure (Botosan, 1997), which depends on the requirements on the firm's operating environment, the nature of additional voluntary information, besides the researcher's motivations of the study. Further, prior literature mostly used the extent of disclosure quality using voluntary disclosure index (Botosan, 1997; Chau & Gray, 2002). The DQ based on weighted scores employ analysts' assessments of three magnitudes of disclosure: First is the use of published information (annual reports). Secondly is the use of quarterly and other published information (quarterly reports, press releases and proxy statements). Thirdly is investor relations and related aspects that include access to and availability of management's responsiveness to analysts' questions (management earnings forecast), hence, a range of scores is assigned to each measure (Ahmed, Kilic, & Lobo, 2006). Accordingly, unweighted measures are used by dichotomous numbers to each disclosure '1' or non-disclosure '0' respectively. The individual weight is subsequently summed up to get the overall index score. Some scholars also use volume or quantity method. In this case, researchers calculate the number of pages or the number of sentences and words in a particular segment of information to access the disclosure quality (Katmon & Farooque, 2015).

## 5.7 Definition and Measurement of Independent Variables

This study uses some variables to proxy for the board, as well as an audit committee characteristics. This is made possible due to explicit requirements in the revised CCG released by the Nigerian SEC in 2011. The requirement mandates particular disclosure of CG variables including AC's variables to be disclosed in the firm's annual report (SEC, 2011).

### 5.7.1 The Board Characteristics

According to Bhagat and Bolton (2008), the board of directors plays a significant role in corporate governance practices. The board characteristics examined in the current study include board independence, board size, Chief Executive Officer duality, managerial share ownership and gender diversity. Meanwhile, the AC characteristics examined are AC independence, AC shares ownership, and AC financial expertise.

#### 5.7.1.1 The Board Independence

Independence of the board is the level of presence of non-executive directors (outside directors) on the board of a company. In this regard, the higher the proportion of NED to the total number of board members is expected to lower incidences of EM that subsequently improves EQ. From the empirical evidence of prior studies, the board composition determines the quality of reported earnings (Petra, 2007; Firth et al., 2007; Rubin & Segal, 2012) and found that the proportion of outside directors was an important monitoring mechanism. Therefore, this study measured Board Independence by the percentage of non-executive directors against the total number of directors on the board.

#### 5.7.1.2 The Board Size

Board size relates to the composition or number of directors on the BoD of a company for monitoring and control of managers, even though it is not clear on how the direction of influence is tilted. Board sizes may vary, from a minimum of five (5) or six (6) members to a very large membership of 20 and above depending on the complexity of the firm and shareholding. Although Section 4.2 of the Nigerian SEC code of CG (2011) provides for the composition of the board of public companies to compose of at least five (5) members, there is yet to be a consensus on whether larger or smaller boards impacted positively on firm performance or enhances FRQ. Board size attracted some research and regulatory provisions, emphasising the effect of board size on firm performance or financial reporting. Depending on the economic and environmental factors, the results continue to diverge. It thus suggests that small board sizes are more manageable than larger boards, in terms of control and meeting its demands.

Also, controlling and monitoring of board activities including management activities seem to be much more effective with smaller boards (Beasley,1996; Jensen, 1993; Lipton & Lorsch,1992; Williams et al., 2005; Schnake & Williams, 2008; Guest, 2009), and that larger boards have an adverse impact on strategic plans, internal controls, and FRQ. If the board is too large, the effect of too many cooks will prevail, and that may affect the effectiveness of the internal control system and consequently the FRQ. Therefore, this study measured board size according to the number of directors on the board.

#### 5.7.1.3 The Managerial Share Ownership

Managerial share ownership refers to the manager's interest in the firm’s equity shareholding. Agency theory assumes that equity holdings of managers encourage managers to align their interests with that of the shareholders towards value maximisation of the firm. In this regard, managerial share ownership is an important monitoring mechanism in corporate governance. Prior studies (Warfield, Wild & Wild, 1995; Nadal, Bana & David, 2010; Alves, 2012; Cheng *et al.*, 2013) posit that the interests of shareholders and management start to converge as the management holds a percentage of the firm's equity ownership. This suggests that since manager's interest is aligned with the owner's interest, they need not be monitored to provide the performance and value of the firm, given the empirical support that managers may be encouraged in employing DA in an attempt to recoup earnings and value of their stock holdings through higher managerial ownership. This study measured managerial shares ownership as the proportion of the number of shares owned by executive directors divided by the total number of company shares.

#### 5.7.1.4 The Chief Executive Officer Duality

Chief Executive duality role is one other board characteristic associated with strong CG. The Chief executive officer duality refers to combining the responsibilities of CEO and the Chairman of the board to one person. Thus, the two roles are concurrently discharged by one individual. However, when CEO duality is entrenched, strategies aimed at advancing personal interests rather than company's overall interest would vigorously be pursued. Therefore, vesting the two responsibilities of CEO and Chairman of the Board to an individual could undermine the board's effectiveness (Gul & Leung, 2004).

Evidence from previous studies on CEO duality equally document the significance of separating the two positions including their role (Beasley, 1996; Davidson et al., 2005; Kent & Stewart, 2008). They maintained that the appointment of a CEO to the position of the chairperson can give concentrated power and may create conflict of interests, which may reduce control and monitoring of managers. This was supported by Coombs & Wong (2004), Gul & Leung (2004), and Dey, Engel, & Liu (2011). Therefore, this study measured

Chief Executive Officer duality by assigning one (1) if the CEO also serves as the chairperson and 0 if otherwise.

### 5.7.1.5 The Board Gender Diversity

The continued demand for appointing women to the board of companies is increasingly drawing researchers as well as regulators' attention. Despite these pressures, there is the absence of a specific provision for female representation on the boards of Nigerian public companies by SEC, CCG, 2011. In spite of that, proponents of women participation in public affairs suggest that the composition of the BoD should consist of female members. Further arguments were advanced that such boards when constituted, would provide higher quality deliberations than those composed solely of males, and such boards communicate more effectively. Beyond participation, studies suggest that membership of women on the BoD enhances board performance and strengthens the quality of the financial report.

Empirical studies (Krishnan & Parsons, 2008; Adams & Ferreira, 2009) find female directors to have a significant impact on board inputs, firm outcomes and enhance financial reporting quality. This is further supported by Srinidhi, Gul and Tsui (2011) who document that EQ is higher with the presence of women directors. Therefore, this study measured gender diversity based on the proportion of female directors to the total number of board members.

Table 5.1
*Measurement of Board Characteristics*

| Variables | Abbreviation | Measurements | Theory |
|---|---|---|---|
| Board Independence | **BIND** | Percentage of the non-executive director or outside directors by the total number of directors on the board (Rubin & Segal, 2012; Fodio et al., 2013). | Agency theory |
| Board size | **BS** | Total the number of directors' on the board (Schnake & Williams, 2008; Guest, 2009). | Agency theory/Resource Dependency theory |
| Chief Executive Officer duality | **CEOD** | Dummy variable indicating "1" if CEO is the chairperson of the firm, otherwise "0" (Rahman & Ali, 2006; Dey, Engel, & Liu, 2011) | Agency/Stewardship theory |
| Board Gender Diversity | **BGD** | Proportion of female directors to the total number of board members (Yan, Fornaro, & Elshahat, 2011; Ittonen, Peni, & Vahama, 2015; Huang, Thiruvadi, 2012) | Resource Dependency theory |
| Managerial share ownership | **MSOW** | The proportion of the number of shares owned by executive directors divided by the total number of company shares (Nadal, Bana & David, 2010; Alves, 2012; Cheng *et al*., 2013). | Agency theory |

### 5.7.1.6 The Audit Committee Independence

Given the oversight function of the AC, independence is one of the essential qualities of AC members. As one of the CG mechanisms, audit committees is seen as being responsible for overseeing the reporting process of firms' finance (Uzun et al., 2004). Thus, the magnitude of independence of the AC's individual non-executive members as a percentage of independent members of the AC is referred to as AC independence. The extent of individual members' independence relates to the absence of the relationship between the company and its management. Such relationships may be personal, employment or business relationships. Therefore, the effective discharge of AC monitoring responsibility lies on the level of AC independence. The absence or low level of AC independence would adversely affect the quality, and credibility of financial reporting (Lin et al.,2006). Therefore, the measurement of the AC independence is one if there is the presence of at least one (1) independent non-executive director on the AC, and if otherwise, the measurement is 0.

#### 5.7.1.7 The Audit Committee Financial Expertise

The term financial expertise may be referred to as the accounting, finance, financial management as well as ability to prepare error-free financial statements. Prior studies support the existence of relationships between accounting expertise and quality financial reporting. Documented empirical studies (Xie, Davidson, & DaDalt, 2003; Bedard et al., 2004; Carcello, Hollingsworth, Klein, & Neal, 2006; Mustafa & Youssef, 2010) document that there is a reduction in the use of DA and income-increasing accruals when firms have a minimum number of financial experts on their AC.

Nevertheless, Badolato, Donelson, and Ege (2014) argue that to constrain earnings management, a firm needs a member with a combination of high status and financial expertise as an AC member. Status refers to an individual's ability to influence outcomes based on perceived skills, qualities and personal attributes (Pollock et al., 2010). Therefore, individuals with higher status are seen to have the higher ability, command more authority and obtain better information (Badolato et al., 2014).

In line with the requirement of the Nigerian SEC Code of CG, 2011, where public companies are mandated to have at least one member of the AC to be financially literate while other committee members should be able only to understand financial statements. Therefore, this study considered audit committee financial expertise as a categorical variable measured by one if there is the presence of at least one AC member with knowledge of accounting or financial management, if otherwise, 0.

#### 5.7.1.8 The Audit Committee Share Ownership

Audit committee share ownership represents the AC member's proportion of shareholdings in the company. Distinct from other countries code (UK) provisions where AC members come entirely from the non-executive members of the board. The Nigerian SEC CCG 2011, provide for the composition of the AC to compose of six (6) members (CAMA, 593: 3 & 4). Three (3) of the members are to be nominated by the board from among the board members while the other three (3) members are elected by the shareholders from among themselves during the annual general meeting (AGM).

Additionally, SEC 2011, CCG, requires public companies to have at least one (1) of the members representing the Board on the AC to be financially literate. Previous studies have documented the potential effects of AC members' share ownership in monitoring financial reporting process of a firm. These studies suggest the association between share ownership and FRQ effectiveness, in addition to greater vigilance and higher monitoring (Jensen, 1989; Shivasani, 1993; Carcello & Neal, 2003; Vafeas, 2005). Therefore, AC share ownership again is a continuous variable measured by the proportion of shares held by the non-executive directors on the AC divided by the company's total number of shares. This information was collected from the director's report section of the annual report of each of the sampled company.

Table 5.2
*Measurement of Audit Committee Characteristics*

| Variables | Abbreviation | Measurements | Theory |
|---|---|---|---|
| Audit committee independence | **ACIND** | Categorical variable measured by "1" with presence of at least one independent non-executive director on the AC, if otherwise "0" (Lin et al., 2006; Fodio *et al.*, 2013; Rahman & Ali, 2006). | Agency theory/Resource dependency theory |
| Audit Committee financial expertise | **ACFE** | The categorical variable measured by "1" with the presence of at least one member with knowledge of accounting or financial management, if otherwise, "0" (Carcello, Hollingsworth, Klein, & Neal, 2006; Mustafa & Youssef, 2010). | Agency theory |
| Audit Committee share ownership | **ACSOW** | Continues variable measured by the proportion of shares held by non-executive directors on the AC divided by the company's total number of shares (Carcello & Neal, 2003; Vafeas, 2005)). | Agency theory |



### 5.7.1.9 The Debt Structure (Leverage) as a Moderator

Capital Structure refers to the firm's financial structures that combine equity and debt capital maintained by a firm. A CS may comprise of debt, equity or hybrid securities. The comparative ratio between the equity and the debt is referred to as leverage. Therefore, the firm's ability to meet financial needs of its shareholders depends primarily on its financial structure. For this reason, managers would be interested in achieving their targets that may be in conflict with the firm's value. As such, shareholders may attempt to control managers' behaviour through monitoring. Hence, both the control and monitoring result in agency cost of equity. Similarly, creditors' investment in the firm attracts interest that is based on the firm's risk. Thus, managers may decide to transfer value from creditors to shareholders who need to be monitored and controlled, which results in agency cost of debt. Afza and Rashid (2014) document that earnings management is enhanced by short-term debt, whereas long-term debt and total debt decreases earnings management activities because of high monitoring by creditors (outsiders). Furthermore, Jensen and Meckling (1976) and Myers (1977) proposed the agency costs of debt and equity. They argue that the existence of the conflict between debtholders leads to agency costs of debt.

Debt assists to lessen agency costs. Also, CG is established to alleviate agency conflicts. Therefore, debt and governance play a similar role. The need for debt to act as an instrument for controlling agency costs may be greater than in companies with weak governance. Thus, firms with poor governance quality should be more leveraged. Accordingly, for firms to raise external funds from capital markets on attractive terms, they must establish good reputation to be able to service the debt succesfully. By so doing, the firms would reduce the availability of funds for expropriation.

This study introduces leverage to moderate the inconsistency in the relationship between CG mechanisms and EM. Therefore, moderator refers to a qualitative or quantitative variable that affects the relationship (positive or negative) between the predictor (independent) variable and a criterion (dependent) variable (Zahra & Pearce, 1989). Furthermore, the motive for introducing moderator in the study is the inconsistency of the result between CG and EM. Thus, moderator variable can be introduced where there is inconsistency or weak relationship between the dependent and the independent variables (Sherman & Fazio, 1983; Zahra & Pearce, 1989). Accordingly, previous studies provided support that leverage play a major role in monitoring and mitigating management self-motivated behaviour (EM). Therefore, debt structure (leverage) is measured by the proportion of total long-term debt over the total asset of a firm. However, to the researcher's knowledge, this is the first study that uses leverage as a moderator variable.

Table 5.3
*Measurement of Moderator*

| Variables | Abbreviation | Measurements | Theory |
|---|---|---|---|
| Leverage | **LEV** | Is measured by the proportion of total long-term debt over a total asset of a firm (Afza & Rashid, 2014). | Agency theory |



### 5.7.2 The Control Variables

The control variables according to Cowen, Ferari, and Parker (1987) act as intervening variables that should be controlled in empirical studies. The model of this study includes three control variables, firm size (FS), profitability (PRAT) and firm age (FA) that could also influence the extent of earnings management practices.

#### 5.7.2.1 Firm Size

To test the association between a company's corporate governance attributes and its accruals quality, the volatility of business operations was controlled for. Also, it is predicted that smaller size companies would have higher cash flow and sales volatility, longer operating cycles, and more frequent incidence of negative earnings leading to lower accruals quality. Thus, managers of these companies may have more opportunity to manipulate earnings. While larger companies may have less motivation to indulge in fraudulent financial reporting, the increase in sales could mean an increase in receivables. In line with prepositions by the agency theory, Jensen and Meckling (1976) disclosed the existence of high probability of managers and owners conflict of interest in larger size firms compared to smaller firms, the consequences of which leads to higher agency costs.



Thus, the prediction of agency theory is, there would be an increase in monitoring in larger firms as a means of justifying agency conflict that in turn increases agency costs. Consequently, Becker, Defond, Jiambalvo, and Subramanyam (1998) argue that larger firms are unlikely to manage earnings. Meanwhile, Lobo and Zhou (2006) argue that it is easier for larger firms to manipulate earnings due to their operational complexities. A similar study conducted by Amran and Che Ahmad (2011) examined board attributes relationships with firm's performance of 189 family companies in Malaysia between 2003 and 2007. The study found that due to size and level of operation, larger firms may be faced with complexities in operations leading to lower firm performance.

On the other hand, Habbash (2010), Fodio et al. (2013) and Wen and Hsu (2015) show evidence that firm size is negatively associated with DA, suggesting that large firms are less likely to engage in EM. In contrast, Uwuigbe, Ranti, Uwuigbe and Bernard (2015) found the firm size to have a positive and significant relationship with DA. Furthermore, in view of their size, operational complexities, and the ability to engage reputable and experienced external audit firms, larger firms are likely to have less DA (Dechow & Dichev, 2002; Rahman & Ali, 2006; Srinidhi & Gul, 2006; Yip, Staden, Chris, & Steven, 2011). Therefore, for the purpose of this study, firm size was measured using the natural logarithm of total assets.



#### 5.7.2.2 Firm Age

Firm age is considered to be the number of years a company passed since being listed on SEC, while others view firm age as the number of years a firm spent since incorporation. As time passes, companies discover what they are good at and learn how to do things better as they specialise more and new techniques are found to standardise, coordinate, and enhance their production processes, as well as to minimise costs and improve quality (Ericson & Pakes, 1995). Companies incorporated for a longer period tend to have a lower magnitude of EM than newly incorporated companies. This is because they are established companies, with a high market value and a reputation to protect (Akhtaruddin, 2005). Accordingly, prior studies (Adam & Ferreira, 2004; Mínguez-Vera & López-Martínez 2010; Julizaerma & Sori, 2012; Kutum, 2015; and Bassiouny et al. (2016)) used firm age to represent the number of years of operation as a control variable in their studies.

Though, Owusu-ansah (1998) and Amran and Che Ahmad (2011) used the year of incorporation as a proxy for firm age. They argue that it represents the year the company is statutorily recognised, and their financial statements are subjected to complying with statutory requirements for reporting to regulatory agencies. Therefore, old firms are familiar with the governance, listing rules and codes of practices within the industry, which might have improved their financial reporting practices (Alsaeed, 2006). Consequently, the older firms have less tendency to engage in earnings management practices. Therefore, for the purpose of this study, firm age was measured by the number of years of a firm has been incorporated and listed on the Nigerian SEC.

#### 4.7.2.3 Profitability

Profitability is used in measuring a firm's management performance. Therefore, the management of a profitable firm is likely to pursue or adopt measures that would provide support for the continuance or retention of such positions and performance related activities. As such, profitability is capable of inducing managers in manipulating company's earnings in their annual reports in an attempt to boost performance. Researchers have used the net profit to sales, earnings growth, ROA, and ROE as proxies of profitability. Thus, firms' profitability has been argued to have an influence on the quality of financial reporting. Alsaeed (2006) documented that a profitable company may feel proud of its achievements and so would disclose more information to create good impressions about its performance.

Besides that, the level of profit has been argued to have an influence on the manipulation of accounting accruals because managers may manage earnings to increase their bonus rewards (Yang & Krishnan, 2005). Meanwhile, firms which have experienced losses for some years have also been argued to have the propensity to engage in lower financial reporting quality (Loebbecke, Eining, & Willingham, 1989). Furthermore, Fudenberg and Tirole (1995) argue that EM firms tend to show a high profitability due to its effect on managers' position and compensation contract which motivates managers to manipulate earnings. Consequently, if current earnings are low and managers believe that future earnings will be high, they tend to engage in income-increasing EM practices. However, if present earnings are high but managers expect low future earnings, they tend to participate in income-decreasing EM. Prior studies (Adelopo, 2010; Nedal et al., 2010; Mavis, Ibadin, & Izedonmi, 2012; Usman, 2012) provided evidence for the use of profitability as a control variable. In line with previous studies, this study measures profitability as the ratio of profit after tax to total assets.

Table 5.4
*Measurement of Control Variables*

| Variables | Abbreviation | Measurements | Theory |
|---|---|---|---|
| **Firm Age** | **FA** | A number of years of firm's incorporation (Owusu-ansah, 1998; Amran & Che Ahmad, 2011). | Agency Theory |
| **Firm Size** | **FS** | Continues variable measured by the natural logarithm of total assets (Bokpin et al.,2011; Sukeecheep et al., 2013; Zamri et al., 2013). | Agency Theory |
| **Profitability** | **PRAT** | Continues variable measured by the ratio of profit after tax, to total assets (Adelopo, 2010; Nedal *et al*., 2010; Usman, 2012). | Agency Theory |

## 5.8 Techniques for Data Analysis

The study employed descriptive analysis of the data generated by the study and described the data through the mean, median, maximum, minimum and standard deviation, as well as the skewness and kurtosis of the sampled variables. After that, Pearson correlation matrix was employed to investigate the bivariate relationships amongst the variables. Furthermore, a paired two samples t-test was used to measure the extent of financial reporting quality, two years before and two years after the commencement date (2011) of the Nigerian revised SEC code of CG, 2011 in Nigeria.

The OLS multivariate regression method was also applied in examining the relationship between the dependent variable and other explanatory variables. The OLS assumptions as suggested by Hair, Black, Babin, and Joseph (2010) for the validation of regression analysis was employed. These assumptions are Normality, Linearity, Homoscedasticity, and Multicollinearity. However, studies of Glass and Hopkins (1984) suggest that a slight violation of the five assumptions are robust, and as such may not affect the results in many situations. However, the selection of the appropriate method of the many multivariate statistical tools available depends on the measurement of the study. Given the suitability of multiple regression techniques, when using panel data, the study therefore employed it in the analysis of data.

FRQ is measured as a function of accrual quality (AQ).

Thus, FRQ = f (CG) which is expressed as:

FRQ=f(BIND, MSOW, BS, CEDU, BGD, ACIND, ACFE, ACSOW, FA, FS, PRAT)…………………………………………………………………… (i)

The Ordinary Least Square (OLS) regression, fixed effect, and random effect models are the models employed to estimate the combined effects of IVs on the dependent variables. The OLS provides a consistent estimate of α (intercept) and β (slopes) but is biased because it fails to address the problem of endogeneity (Hall, 2005) and as a result, both fixed effects and random effects were tested, and a random effect was found to be well fitted and as such employed. Therefore, the model of the study estimates the impact of leverage on CG and the financial reporting quality.

The regression models (i) are expressed as follows:

$$FRQ_{it}= \beta_0 + \beta_1 BIND_{it} + \beta_3 MSOW_{it} + \beta_2 BS_{it} +\beta_4 CEDU_{it}+ \beta 5BGD_{it} + {}_6ACIND_{it} + \beta_7 ACFE_{it} + \beta_8 ACSOW_{it}+ \beta_9 FA_{it} + \beta_{10} FS_{it} + \beta_{11} PRAT_{it} + e_{it} \ldots\ldots\ldots \text{(ii)}$$

The regression model for the moderating effect is expressed as follows:

$$FRQ_{it}=\beta_0+\beta_1 BIND_{it}+\beta_2 MSOW_{it}+\beta_3 BS_{it}+\beta_4 CEDUit+\beta_5 BGD_{it}+\beta_6 ACIND_{it}+ \beta_7 ACFE_{it}+\beta_8 ACSOW_{it}+\beta_9 FAit+\beta_{10} FS_{it}+\beta_{11} PRAT+\beta_{12} LEV_{it}+\beta_{13} BIND*LEV_{it}+ \beta_{14} MSOW*LEV_{it}+\beta_{15} CEDU*LEV_{it}+\beta_{16} BGD*LEV_{it}+\beta_{17} ACFE*LEV_{it}+ \beta_{18} ACSOW*LEV_{it}+e_{it}\ldots\ldots\ldots\ldots\ldots\ldots\text{(iii)}$$

Where:

FRQ = Financial Reporting Quality; BIND = Board Independence; BS= Board Size;

MSOW = Managerial Ownership of Shares; CEDU= Chief Executive Officer Duality;

BGD= Board Gender Diversity; ACIND = Audit Committee Independence; ACFE = Audit Committee Financial Expertise; ACSOW = Audit Committee share ownership; FS = Firm Size; FA = Firm Age; PRAT= Profitability and LEV= Debt Structure (long-term debt); $\beta_0$ = Parameters estimated; e = an error term assumed to satisfy the standard OLS assumption. $\beta_1$- $\beta_{10}$ = Partial derivatives or the gradient of the independent variable.

## 5.9 T-test: Paired Two Sample for Means

The paired two samples for means (t-test) was employed to analyse the data collected for this study. The aim was to assess the differences between the means of financial reporting quality of non-financial listed firms for pre and post SEC Code of CG 2011 periods. The approach suggests differences between the means of the financial reporting quality of Nigerian non-financial listed firms for the two periods. It also makes possible to know which side of the pair of the time limits is better in quality. The sample mean of the sets of variables of the Nigerian non-financial listed firms were compared to ascertain if the average differs from zero. A dichotomous variable code "0 and 1" was used for pre and post periods respectively. Hence, it provided a better measurement of detecting the existence of differences between the pre and post SEC Code of CG periods, to ascertain which period is better. The two sample t-test was further used to test hypothesis six of the study.

## 5.10 Model Statistical Tests

The software STATA version 14 was used as a statistical tool in running and analysing the data. Furthermore, it was employed in performing the statistical analyses for the descriptive statistics, correlations, multiple regressions and post-estimation tests.

## 5.11 Summary of the Chapter

The chapter primarily focused on the methodology of the study. The researcher explained and justified the type of research design for the study. After that, the researcher discussed the population, process of sample selection, determination of the sample size, and the descriptive research design of the study. The chapter also discussed and defined the dependent and IVs including their measurements. Also, the techniques for data analysis were presented while OLS multivariate regression method was applied in examining the relationship between the DV and other explanatory variables.

# CHAPTER SIX
# RESULTS AND DISCUSSION

## 6.1 Introduction

This chapter analyses and discusses the results of the statistical tests undertaken in this research as explained in Chapter Four. It further provides the findings of the relationship between corporate governance, leverage, and financial reporting quality. The discussion in this chapter is organised into five sections. Thus, Section 6.2 provides details of population and sample classification; Section 6.3 provides the descriptive statistics of the research. Next, Section 6.4 explains the results obtained from the test of relationships between CG variables, leverage, and FRQ. While section 6.5 provides the diagnostic tests conducted. Finally, section 6.16 provides the final summary of the chapter.

## 6.2 Population and Sample Classification

As explained in Chapter 4, the population of the study is the non-financial companies listed on NGSEC which equally constitutes the sample of the research. The sample of financial information is obtained from the published annual report of the companies and their respective websites. Also, corporate governance variables information were collected from the NGSEC corporate office and its Kano state regional office. Therefore, the sample of this research was drawn from all the 163 non-financial companies listed on the NGSEC during the five-year period from 2010-2014. In line with the listing requirements and rules of SEC, violation of one or more of the rules would lead to either suspension or outright delisting of a company. Thus, 130 companies are found to be trading on the floor of the NGSEC between 2010 and 2014. However, out of the 130 non-financial listed companies, 101 companies constituted the sample of this research. The remaining 29 companies failed to meet the filtering requirements of non-disclosure of corporate governance variables and other information needed for this study. Such information includes audit committee independent non-executive member, share ownership, non-availability of detailed profile of directors on the board, and financial information without the corporate governance report that should have accompanied such financials. Furthermore, companies where their full five (5) years annual reports could not be accessed were excluded from this study.



As declared in Chapter Three of the study, financial companies are excluded because the sector is highly regulated with multiple (banking and insurance) and unique corporate governance codes. In particular, the financial sector has fundamentally different income measurement rules and various accruals working CSs (Sharma & Kuang, 2014). Consequently, working capital has less value to financial companies which makes it distinct from other sectors and are not captured by the McNichols (2002) modified Dechow and Dechiv (2002) model. Similarly, companies from the Construction and Real Estate Industry that were hitherto mortgage, building fund or property trusts, are not sales revenue generating between 2010 and 2014 such as Union Homes Loans and Savings were excluded. Thus, the sample size of 101 non-financial listed companies with complete information on financials and corporate governance reports required by this study for the period of 2010-2014 constitute the sample size of this study. Moreover, the 101 companies involved in this study emerged from 10 out of the 11 industry groups generated over a period of five years (2010 to 2014), which resulted in 505 companies-year observations.

Table 6.1
*Breakdown of Companies by Industry Groups for reduced Samples*

| S/N | Industry Group | Full Sample | % | Unavailable Data | Reduced Data | % |
|---|---|---|---|---|---|---|
| 1 | Agriculture | 5 | 4.0 | 1 | 4 | 3.96 |
| 2 | Conglomerates | 6 | 4.6 | 0 | 6 | 5.94 |
| 3 | Construction/Real Estate | 10 | 7.7 | 4 | 6 | 5.94 |
| 4 | Consumer Goods | 28 | 21.5 | 8 | 20 | 19.80 |
| 5 | HealthCare | 10 | 7.7 | 0 | 10 | 9.90 |
| 6 | Information & Comm. Technology | 10 | 7.7 | 3 | 7 | 6.93 |
| 7 | Industrial Goods | 25 | 19.2 | 7 | 18 | 17.82 |
| 8 | Natural Resources | 6 | 4.6 | 2 | 4 | 3.960 |
| 9 | Oil & Gas | 10 | 7.7 | 0 | 10 | 9.900 |
| 10 | Services | 20 | 15.3 | 4 | 16 | 15.85 |
| | **Total** | **130** | **100** | **29** | **101** | **100** |

Consequently, Table 6.1 provides the specific industrial group distribution of the sampled companies with a broad cross-section of Consumer Goods industry that covers 19.80 percent. Subsequently, Industrial Goods industry represents 17.82 percent of the samples, and Services industry has 15.85 percent while Oil and Gas and HealthCare constitute 9.90 percent and 9.50 percent respectively.

However, the contribution from remaining companies is Information and Communication Technology at 6.93 percent, Conglomerate and Construction/Real Estate Industry at 5.94 percent each, Agriculture (3.96 percent) and Natural Resources (3.96 percent) respectively.

## 6.3 Descriptive Statistics

Table 5.2 presents the descriptive statistics for the financial reporting quality, CG and the moderating variables including the control variables of the research. It describes the mean, standard deviation, minimum and maximum of data for each of the continuous as well as the dummy variables used in the study. Subsequently, presentation and analysis of the correlation matrix that explains the explanatory variables were carried out. The mean and the standard deviation of the financial reporting quality proxy by accrual quality as a dependent variable that represent the model of the study is 13 percent and 0.80, respectively. The variables with the remarkable results are leverage with an average of 49 percent and variability of 48.9 in thousands of Naira (₦). This indicates the average numbers of firms with long-term debt over total shareholdings and its variability. It further shows that 49 per cent of non-financial firms in Nigeria obtained long-term debt and was expected to service these debts within the agreed terms. Firm age has an average of 21 percent with a variability of approximately 13.0 and age chronology of between 1 and 49 years of listing period. Thus, the study suggests relatively higher variability during the listing period with as high as 49 years old listing period and as low as one year before 2010 study period. However, board size is composed of between 4 and 16 members on corporate boards of non-financial listed firms, with the average board composition of 84.0 percent and variability of 2.2. The range of board composition signifies that on the mean, sample companies are well composed in line with the Nigerian Corporate Governance Code's (NGSEC, 2011) minimum requirements for board composition of five for every public company.

On the other hand, there are listed companies that failed to implement the minimum board size of five for the diversity of experience, compatibility, availability for meeting attendance, maintenance of independence, integrity and efficient decision making. In comparison, audit committee shares ownership ranged between 0 and 31 in thousands of Naira, with an average of 16 percent and variability of 1.40. The result indicates that a significant number of boards' AC non-executive members do not own shares in the sample companies while other non-executive AC members of the sample boards owned approximately 16 percent of the entire shareholding of the companies. The independence of the Board is an important CG attribute that enhances the credibility and quality of the financial report. It ranged from zero and proportionately two INED on the corporate board of the sample companies, with an average of 72 percent and variability of 0.12. The result indicates the existence of the highly independent board of directors amongst the 101 listed non-financial companies.

The size of the companies ranged approximately between 4 and 9, with the average of an approximately 69 percent of the mean and standard deviation as high as 0.78 companies. The result described how listed companies in Nigeria are well composed with 84 percent of the companies having more than five members on its board. The composition would enable a diversity of experience, professionalism as well as allows the formation of a quorum for the board meetings. The proportion of female directors in the board composition of the Nigerian listed companies ranged between zero and approximately one, with an average of 10 percent. This appears significantly low compared with working women population in Nigeria. It further signifies an insignificant number of female directors' participation in the decision making on boards of Nigerian listed companies.

On whether Nigerian listed companies consider duality in the board leadership, the statistics indicate that only 3 percent of the entire non-financial listed firms has a board chairperson serving simultaneously as the chief executive officer of the company, with the variability of 0.18. This result is extremely lower in comparison with Xie et al. (2003) and Saleh et al. (2005). This further suggests that Nigerian non-financial companies observe separation of CEO and chair of the board of directors roles. Regarding audit committee independence, the CCG NGSEC, and CAMA (2014) require the audit committee to consist of three (3) representatives of the board as well as three (3) representatives of the shareholders.

On the average of 99 percent, sample companies have a minimum of two (2) independent non-executive members of the board on the audit committee, with a variability score of 0.045. This signifies that a greater proportion of Audit Committees of Nigerian listed non-financial companies are independent. Consequently, the financial expertise of audit committee members has an average score of 9 percent, and standard deviation of 0.24 signifies more variability with a greater proportion of listed companies which do not appoint at least one audit committee member that has basic financial literacy or acquired accounting or financial management skills. Accordingly, a member so appointed on the audit committee should be able to read and understand financial reports as required by NGSEC, CCG, 2011 (Sec.30.2).

Table 6.2
*Descriptive Statistics of The Variables*

| Variables | Number | Mean | St.Dev. | Minimum | Maximum |
|---|---|---|---|---|---|
| *FRQ* | 505 | 1.302 | 0.797 | -0.080 | 15.93 |
| *BIND* | 505 | 0.720 | 0.120 | 0.286 | 1.333 |
| *MSOW* | 505 | 0.103 | 0.318 | 0 | 3.793 |
| *BS* | 505 | 8.392 | 2.191 | 4 | 16 |
| *CEDU* | 505 | 0.0317 | 0.175 | 0 | 1 |
| *BGD* | 505 | 0.103 | 0.103 | 0 | 0.600 |
| *ACIND* | 505 | 0.998 | 0.0445 | 0 | 1 |
| *ACFE* | 505 | 0.941 | 0.237 | 0 | 1 |
| *ACSOW* | 505 | 0.157 | 1.401 | 0 | 30.52 |
| *LEV* | 505 | 4.874 | 48.86 | 0 | 770.2 |
| *FA* | 505 | 21.15 | 12.90 | 1 | 49 |
| *FS* | 505 | 6.927 | 0.782 | 3.640 | 8.984 |
| *PRAT* | 505 | -0.561 | 17.58 | -369.2 | 82.98 |

Note: FRQ is the proxy for accruals quality, ACSOW is audit committee share ownership, BIND is the board independence, CEDU is chief executive officer duality, MSOW is the managerial shares ownership, ACFE is the audit committee financial expertise, ACIND is the audit committee independence, BS is the board size, LEV is the leverage, BGD is the board gender diversity, PRAT is ratio of earnings after tax to total Asset, FS is firm size, FA is firm age.

However, the descriptive statistics on leverage indicates a mean of 49 percent with considerable variations in the level of long-term debt to total assets as high as 48.9 of the sample companies. This suggests that averagely in Nigeria, non-financial firms have a debt covenant with creditors.

## 6.4 Correlation Matrix

Table 6.3 presents the relations between dependent and independent variables as well as among the independent variables. The table also indicates the strength of the relationships amongst the IVs included in this study. The values are obtained from the one-way Pearson correlations, with values indicating the correlation coefficients between the independent pair variables. The direction of the relationship shows a positive and negative pattern. The highest correlation of 49 percent is between firm size and FRQ, followed by 39 percent between MSOW and LEV. Meanwhile, the least correlation of 0.2 per cent is between firm size and firm age. Furthermore, the correlation matrix between IVs confiirms non-existence of perfect relationship based on the Pearson correlation matrix.

Thus, it indicates no correlation coefficient greater than 0.80 which might pose a multicollinearity issue (Gujarati 2003; Hair et al., 2006). However, Tabachnick and Fidell (2007) and Hair et al. (2010) argue that existence of multicollinearity becomes a problem only when the association between the predictor variables are strongly correlated with each other with the associated values exceeding 0.9. Hence, there is the absence of multicollinearity between the IVs of the study. Similarly, there is no issue of singularity of data, due to the small values of the relationships between the majorities of the independent variables. Specifically, ACSOW is positively related with FRQ, even though the relationship is not significant. The result of the correlation matrix in Table 4.3 indicates that LEV, ACIND, MSOW, and BGD are not significant but negatively correlated with financial reporting quality, which is an indication of the likelihood of decreasing earnings management and increasing the quality of earnings of Nigerian non-financial listed companies. On the other hand, ACSOW, BIND, and PRAT are positively but not significantly correlated with financial reporting quality. It therefore suggests the tendency of ACSOW, BIND, and PRAT to increase earnings management thereby reducing the EQ of Nigerian non-financial listed firms. However, CEDU, BS, ACFE, and FA are positive and significantly correlated with FRQ. The relationship requires putting strong monitoring of managers to control management entrenched practice that would curtail EM practices in the Nigerian non-financial listed firms.

Table 6.3

*Correlation Matrix of Study Variables for 101 Selected Non-financial Companies Listed between 2010 and 2014*

| | FRQ | BIND | CEDU | BS | MSOW | BGD | ACFE | ACIND | ACSOW | LEV | FA | FS | PRAT |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **FRQ** | 1.000 | | | | | | | | | | | | |
| **BIND** | 0.027 | 1.000 | | | | | | | | | | | |
| **CEDU** | 0.0742* | -0.0545 | 1.000 | | | | | | | | | | |
| **BS** | 0.1470*** | -0.0774* | 0.1065** | 1.000 | | | | | | | | | |
| **MSOW** | 0.0548 | 0.0803* | -0.0277 | 0.0804* | 1.000 | | | | | | | | |
| **BGD** | -0.0460 | -0.0218 | 0.0419 | 0.0237 | 0.0333 | 1.000 | | | | | | | |
| **ACFE** | 0.0958** | -0.0680 | 0.0392 | -0.0318 | -0.0238 | -0.0155 | 1.000 | | | | | | |
| **ACIND** | -0.0433 | 0.1449*** | -0.0243 | -0.0064 | 0.0217 | 0.1196** | -0.0392 | 1.000 | | | | | |
| **ACSOW** | 0.0529 | 0.0233 | -0.2678*** | -0.0083 | -0.0792* | 0.0246 | 0.0017 | 0.0147 | 1.000 | | | | |
| **LEV** | -0.0508 | 0.0370 | -0.0222 | 0.0045 | -0.3918*** | 0.0766* | -0.0160 | 0.0114 | -0.0289 | 1.000 | | | |
| **FA** | 0.1774*** | -0.0151 | -0.0526 | 0.1643*** | 0.2059*** | -0.0602 | -0.0082 | 0.1421** | 0.0564 | 0.0218 | 1.000 | | |
| **FS** | 0.4923* ** | -0.0592 | 0.0790* | 0.2819*** | 0.2884*** | 0.0269 | -0.0322 | -0.0228 | -0.0890** | 0.0023*** | -0.3311 | 1.000 | |
| **PRAT** | 0.0132 | 0.0319 | -0.0052 | -0.0708 | 0.4327*** | -0.0249 | 0.0086 | 0.0602 | 0.0032 | -0.4793 | 0.0120*** | 0.1781*** | 1.000 |

Note: Significant levels are at ***1% **5% & *10%, respectively. * *P-values* are one-tailed on predicted direction. Otherwise two-tailed. FRQ is the proxy for earnings quality, ACSOW is audit committee share ownership, BIND is the board independence, CEDU is chief executive officer duality, MSOW is the managerial shares ownership, ACFE is the audit committee financial expertise, ACIND is the audit committee independence, BS is the board size, LEV is the leverage, BGD is the board gender diversity, PRAT is ratio of earnings after tax to total asset, FS is firm size. While FA is firm age.

## 6.5 Diagnostic Tests

In line with econometrics process, some diagnostic checks were conducted to ascertain the validity of the multiple regression analysis with the support of ordinary least square (OLS). These include multicollinearity, model specification test, heteroscedasticity, normality, and test for the outlier detection.

### 6.5.1 Multicollinearity Test

Multicollinearity was described as an indication of what happens where two or more predictor variables, particularly in multiple regression models, are exceptionally associated (Sekaran & Bougie, 2010). Furthermore, Tabachnich and Fidell (2007) argue that in multivariate regression techniques, no explanatory variables have a perfect linear relationship with one another. However, correlation matrix serves as the easiest means of detecting multicollinearity amongst the independent or explanatory variables. Further, scholars provided a guide on the threshold of the presence of multicollinearity in multiple regression models. For instance, Sekaran and Bougie (2010) argue that a correlation above 0.70 exhibits multicollinearity, while inter-correlation of more than 0.8 is regarded as an indication of extreme multicollinearity (Berry & Feldman, 1985).

Accordingly, Hair, Black, Babin, and Joseph (2010) maintain that evidence of multicollinearity exists amongst explanatory or predictor variables only when exceedingly correlated at 0.90. Moreover, another method for detecting multicollinearity is computing and assessing the tolerance value and variance inflated factor (VIF). Hair et al. (2010) argue that the VIF above 10 suggests serious collinearity while tolerance value less than 0.10 signifies serious issue of multicollinearity.

Table 6.4 presents a test of multicollinearity of explanatory variables of the study. The result indicates the absence of multicollinearity. The fact that each of the variable values falls within the acceptable threshold of not more than 10 VIF value, as suggested by Gujarati (2004), signifies that multicollinearity is not an issue in the model of the study. Consequently, the variable with the highest VIF of 1.51 is Leverage, while ACFE is the least with 1.01 VIF. However, the VIF mean is 1.20, further justifying the lack of multicollinearity in the entire model.

Table 6.4
*Multicollinearity Test*

| Variable | VIF | Tolerance Value |
|---|---|---|
| **BIND** | 1.06 | 0.940 |
| **MSOW** | 1.48 | 0.676 |
| **BS** | 1.17 | 0.853 |
| **CEDU** | 1.11 | 0.902 |
| **BGD** | 1.04 | 0.944 |
| **ACIND** | 1.07 | 0.938 |
| **ACFE** | 1.01 | 0.989 |
| **ACSOW** | 1.11 | 0.901 |
| **LEV** | 1.51 | 0.663 |
| **FA** | 1.13 | 0.882 |
| **FS** | 1.30 | 0.768 |
| **PRAT** | 1.46 | 0.685 |
| **Maen** | **1.20** | |

FRQ is the proxy for earnings quality, ACSOW is audit committee share ownership, BIND is the board independence, CEDU is chief executive officer duality,  MSOW is the managerial shares ownership, ACFE is the audit committee financial expertise, ACIND is the audit committee independence, BS is the board size, LEV is the leverage, BGD is the board gender diversity, PRAT is ratio of earnings after tax to total asset, FS is firm size. While FA is firm age.

### 6.5.2 Model Specification Tests

Model specification tests are conducted to compare whether the model is correctly specified devoid of any specification errors. The model hypothesised non-existence of omitted variables. Therefore, Ramsey (1969) test for model specification was conducted using the powers of the fitted values of financial reporting quality (FRQ). The result of the test (*p*-value=0.34521) and *F*-statistics (1.09) justify that the model is well fitted and correctly specified, hence, does not require any additional variable(s). Thus, it is revealed that the model does not suffer any misspecification or lack of functional fit.



Table 6.5
*Tests for Model Specification, Selection, and Fitness*

| **Tests** | $\chi^2$ | ***p*-value** | **Coefficients** |
|---|---|---|---|
| Ramsey Test | 1.09 | 0.3452 | - |
| Breusch-Pagan / Cook-Weisberg | 0.10 | 0.7494 | - |
| IM Heteroscedasticity Test | 29.46 | 1.0000 | - |

### 6.5.3 Heteroscedasticity Test

Homoscedasticity of the variance is the uniformity or constancy of the residuals that are randomly distributed using various estimations (Hair et al., 2010). On the other hand, heteroscedasticity exists with the presence of unequal variance, which leads to a violation of multivariate regression classical assumptions (Hair et al., 1998). Once heteroscedasticity is identified, it has to be resolved. Otherwise, it will reflect a biased value to have true variance and will not allow Best Linear Unbiased Estimator (BLUE) to be realised. Similarly, heteroscedasticity issue can be detected using White General Heteroscedasticity (Wooldridge, 2003). The rule of thumb is to accept the null hypothesis of *p*-value greater than 0.05, signifying that the variance is homoscedastic. This study employed STATA statistical package in testing the presence of heteroscedasticity and examined the behaviour of the variance. Similarly, to reaffirm the result obtained in Breusch-Pagan/Cook-Weisberg test, an additional test of Cameron and Trivedi's decomposition of Information Matrix-test was carried out. The result in Table 5.5 indicates IM Heteroscedasticity Test of $\chi 2$ = 29.46, with *p*-value=1.0000 which justifies the earlier result and further shows evidence of constant variance among the error terms.



### 6.5.4 Normality Test

Normality test is mostly used statistically or graphically to examine the even distribution of data. The statistical techniques employed to determine the normalities are the skewness and kurtosis. Therefore, distribution is said to be normal only when the value of skewness and kurtosis approaches or is close to zero. Among the major assumptions of regression analysis is that all linear groupings of the variables should be normally distributed (Tabachnick & Fidell, 2007). Accordingly, the graphical technique of normality is mostly established through the residual histogram plots. When the assumption is established, then the residuals become normal and independently distributed (Tabachnick & Fidell, 2007). Consequently, if the data is not normal, it may lead to wrong conclusions in the analysis of the models. Thus, this study conducted normality test using Cameron and Trivedi's decomposition of IM test. The significance of the skewness illustrates the balance of the distribution of data compared with the normal distribution. If it is unbalanced, it shifts to the left or right. On the other hand, Kurtosis refers to the height of the distribution. It shows the peakedness or flatness of the distribution in comparison to the normal distribution (Hair, Black, Babin, & Anderson, 2014). For the data to be normal, the skewness should be within ± 1.96 while standard kurtosis should be ± 2.00 (Abdul-Rahman & Ali, 2006). Nevertheless, Hair et al. (2014) argue that detrimental effects of non-normality be drastically reduced or becomes negligible by larger sample sizes.



Table 6.6
*Tests for Normality*

| **Tests** | $\chi^2$ | ***p*-value** |
|---|---|---|
| IM Skewness | 7.06 | 0.8538 |
| IM Kurtosis | 1.01 | 0.3143 |
| Mardia Kurtosis | 2.492 | 0.1145 |
| Henze-Zirkler | 2.522 | 0.1123 |

Cameron and Trivedi (1990) decomposition of IM-test for skewness and kurtosis was conducted, and the result in Table 6.6 shows skewness $\chi^2$ =7.06 with *p*-value=0.8538 and kurtosis $\chi^2$=1.01 with *p*-value=0.3143. The insignificant *p*-values in both skewness and kurtosis test proved normality of the data. Additional normality test using Mardia kurtosis test (1970) as in Table 6.6 proved normal distribution of the data with $\chi^2$= 2.492 and a probability value of $p$=0.1145. Similarly, the result of Henze-Zirkler (1990) test in Table 6.6 confirmed the normal distribution of the residuals through skewness and kurtosis jointly with $\chi^2$=2.522 and a probability value of $p$=0.1123. Thus, both skewness and kurtosis posed no threat to the dependent and IVs of the study. Furthermore, normal probability plot compares the distribution of data values cumulatively with the cumulative distribution of a normal distribution. This approach is considered to be more reliable in determining normality graphically. The normal distribution forms a straight diagonal line, and the plotted data values are compared with the diagonal. If a distribution is normal, the line representing the actual data distribution closely follows the diagonal.

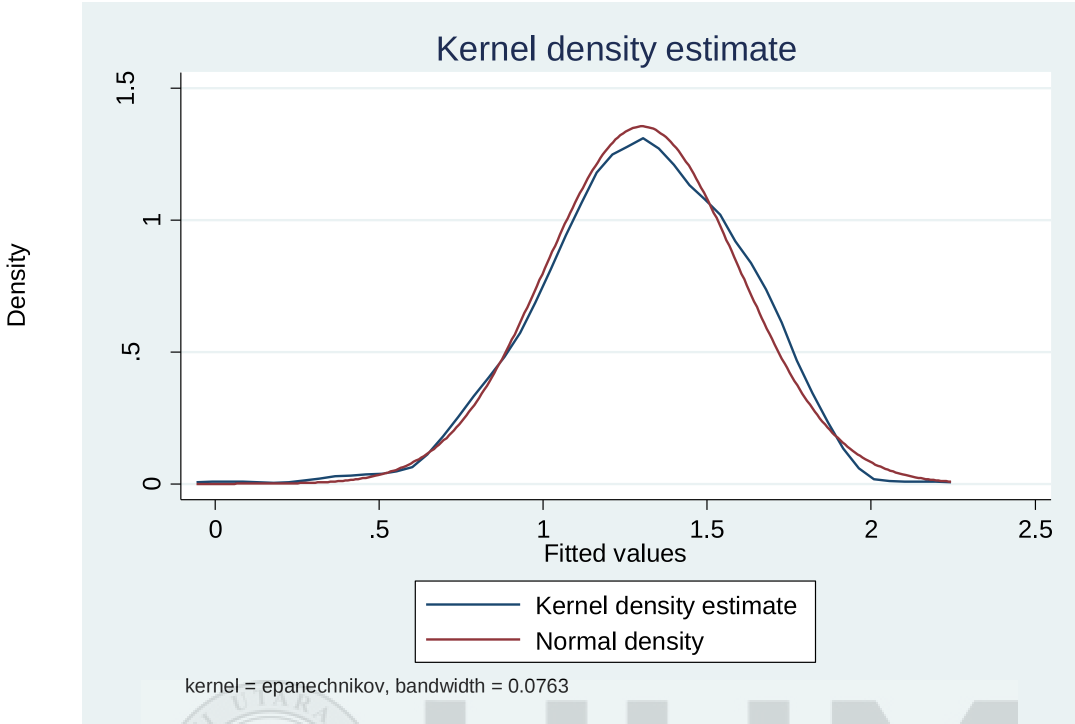


Figure 6.1
*Figure Kernel Density Normality Distribution*

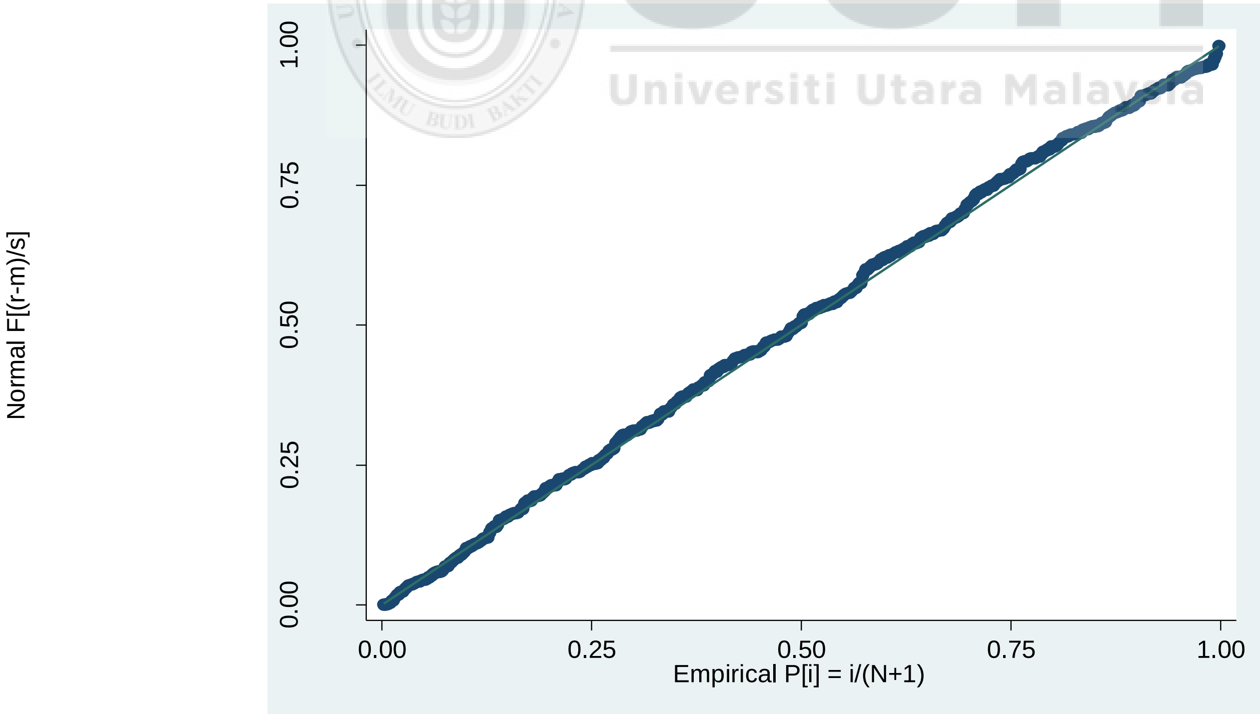


Figure 6.2
*Standardised Probability Plot (Normal)*

Furthermore, the graphical normal distribution mechanism through the histogram (Kernel density normal distribution, Figure 6.2) and standardised normal probability P-Plot (Figure 6.3) were used for testing the normality of the data distribution. The straight diagonal line in Figure 2 with the plotted data values was compared and had indicated that the actual data distribution narrowly falls and follows the normal distribution plot. Further, the result in Figure 1 proved that our residuals are normally distributed because there is no deviation between kernel density estimate and normal density, thereby establishing the normality assumption. The results of these tests provided evidence that the regression model used in the study is justifiably specified and allow for interpretation devoid of issues relating to multicollinearity, nonmorality, heteroscedasticity, missing or outlier in the observations that may affect the results.



### 6.5.5 Outlier Test

An outlier refers to a substantially unique combination of values that distinctly differ in its characteristics from other observations. Similarly, where greater differences are identified in observations between the cases or actual values for outcome variable and the predicted value constitute outliers. An outlier can lead to non-normality of the data or produce biased results. It can also provide robust effects in OLS estimation, particularly in smaller samples (Wooldridge, 2003). Nevertheless, in handling identified outlier in observation, Hair et al. (2014)

suggest generating profiles of each observed outlier and employing regression techniques amongst other techniques to ascertain the differences between the observations and outliers.

Nevertheless, depending on the importance of the outlier to the investigation that would allow the decision on whether the data is to be eliminated or retained. Thus, when an outlier is identified in an observation that constitutes an inappropriate sample drawn from the population, it is only proper for the data to be eliminated from the analysis as a non-representative of the population (Hair et al., 2014). On the other hand, Hair et al. (2014) added that outliers could be retained when it is demonstrably established that they pose no threat to the representative observations in the population to guarantee generalisation to the whole population.

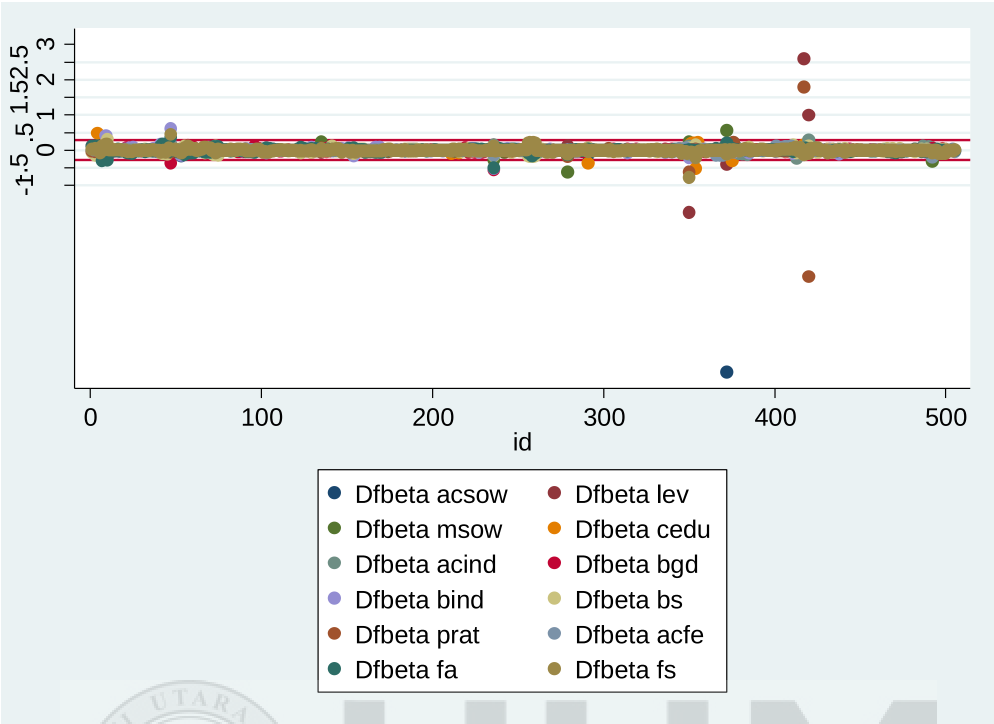


Figure 6.3
*Outlier Plot*

Figure 6.4 presents the graphical result of the predominant eight identified outliers in the observations. Furthermore, after controlling for the outlier, the firm-year observations were reduced from 505 to 497. Comparing the robust outlier result (2) and robust normal regression (4) in Table 5.14 provides the insignificant difference in all the variables. ACSOW, MSOW, ACIND, ACFE, FA and FS are all significant at 1% level in both tests. Thus, presence or elimination of outlier in all circumstances seems not to affect the results of the study.

## 6.6 Comparative Analysis of DA for Pre and Post-CCG 2011

The review of Nigerian SEC CCG 2003 and its subsequent review to CCG 2011 is designed to ensure good governance in public companies, through the well-established board of directors. Corporate governance is a mechanism expected to impact positively on the quality of earnings, as a result, discourages motivation for earnings manipulation. Moreover, implementation of CCG 2011 is aimed at turning around the governance structures, boost capital market operators' confidence, and safeguard stakeholders' interest. It further seeks to enhance transparency in reporting, shape business practices and regulates the way companies manipulate financial information presented to users (NGSEC, 2011). Table 6.7 shows the descriptive statistics of financial reporting quality for the SEC pre and post-CCG, 2011. The effective date of implementing a Code of CG for Nigeria was 2012.



Therefore, the pre-period comprise of two years (2010-2011) as the period from the effective date of implementation and post period of equivalent years (2013-2014) as the period after the effective date of implementation. Hence, the study used two sample t-statistics with an equal variance to examine existence of difference between the mean of the two groups (period) in enhancing the quality of financial report in the Nigerian listed non-financial companies. The post implementaion period is expected to have a lower discretionary accruals. Hence, the study anticipates the higher quality of earnings during the post-implementation period. Accordingly, Table 6.7 presents the result of the two sample means (pre-period has a mean value of 0.1410, the standard deviation value of 0.4263, while the post-period has a mean value of 0.2270, the standard deviation value of 0.3954). This indicates that the average of 0.1410 of the pre-period is lower than the mean of 0.2270 of the post-period, implying that on the average, FRQ increases by 9 per cent. Furthermore, the result is supported by its significance at 5 percent (t-statistic is -2.1004, *p*-value = 0.0363) level. Thus, the *t*-statistics of -2.1004 is sufficient to reject the null hypothesis of no difference between the mean of the pre and post-CCG 2011.

Table 6.7
*Test of The Differences of DA Between Pre- and Post- CCG, 2011*

| **Period** | **Mean** | **SD** | **t-statistics** | **Significance** |
|---|---|---|---|---|
| Pre-Period | 0.1410 | 0.4263 | -2.1004 | 0.0363** |
| Post-Period | 0.2270 | 0.3954 | | |
| Difference | -0.0859 | | | |

Consequently, the revised code of corporate governance 2011 brought about new regulatory changes that effectively enhanced the quality of financial reporting and as a result, decreases managerial self-motivation for earnings manipulations.

Subsequently, a robustness test on the value relevance between the pre and post SEC CG Code 2011 was conducted, which provides that, when the sampled period was portioned into pre-period (2010 to 2011) and post-period Code (2013 to 2014), the corporate governance variable exhibits different characteristics and were valued differently by the capital market participants. The results of the regression for the pre-period Code period was presented in the third column of Model 2 (Table 7.1). The coefficients of the model basic variables (BVPS and EPS) are positive and significant at 5% and 1% respectively. Overall, the revised SEC Code of corporate governance 2011, implemented in Nigeria is more value relevant as compared to the SEC 2003 Code. Given the value relevance of the corporate governance variable post review period, the results indicates that a new set of corporate governance variables is more value relevant during the new Code regime.

## 6.7 Chow Test

A Chow test is a test that is conducted to test if a regression model is appropriate to explain the relationship between the dependent and independent variable between two groups. Again, if the coefficient of the regression model is the same between the two groups, then there is no structural change between them. Hence, a Chow test was conducted to analyse whether intercept and slopes (parameters) of one group in the regression model are different from other groups. A regression model was estimated using interaction method on group variables. The null hypothesis for this statistical test stated that the before (pre-period) and after (post-period) of the revised Nigerian SEC CCG 2011 have equal parameters for the selected groups' variables, ACSOW, CEDU, ACIND, BGD and ACFE and their intercepts. As such, deviations of the slopes and intercepts are not statistically different from zero.

Conversely , the result of the Chow tests for the selected variable (ACSOW, CEDU, ACIND, BGD, and ACFE) provides that $\chi^2$= 23.47 with *p*-value=0.0000, which is significant at 1 percent level. The result indicates that the coefficients of the IV's are not statistically the same between the two groups. It further explains that there is evidence of policy change in the SEC CCG 2011 that impacted positively on the quality of financial reporting in the non-financial listed firms in Nigeria. Therefore, the study did not support the null hypothesis and concludes that the coefficients of these variables are statistically different across the two different samples.

### 6.8 Test for Serial Correlation

Serial correlation affects the standard errors of the coefficients and as a result, decreases its value to differ from actual values with higher R-squared. As a result, the interpretation of its impact including fitness of the study model becomes distorted, leading to the less efficient result. Wooldridge (2003) and Drukker (2003), implemented and justified a serial correlation test in a linear panel-data model. However, Wooldridge serial correlation test was conducted and provides $\chi^2$=1.615 with non-significant *p*-value= 0.2067. Thus, it provides evidence that, the study data does not have the first-order autocorrelation. As such, there is no statistical justification to reject the null hypothesis of no serial correlation in the regression model.

## 6.9 Hausman Test for Model Selection

Hausman test for model selection provides a decision guide to justify the selection of a preferred model between fixed and random effect models. The aim is to examine whether correlation exists between the regressors and error terms in the model. Furthermore, Breusch-Pagan Lagrange Multiplier test assists in determining appropriate or fit model selection between OLS regression and random effects regression.

Table 6.8

*Breusch-Pagan Lagrangian Multiplier Test for Random Effects*

| **Estimate Results** | **Variable** | **SD (sort)** | $\chi^2$ | ***p*=value** |
|---|---|---|---|---|
| **FRQ** | 0.16163 | 0.4020 | 246.66 | 0.0000 |
| **e** | 0.0509 | 0.2256 | | |
| **u** | 0.0618 | 0.2485 | | |

Variable (u) =0, SD = sort (variable)

Therefore, Table 6.8 presents the result of Breusch-Pagan Lagrange multiplier test for random effect and provides $\chi^2$ = 246.66 and a probability value of 0.0000 significance at 1 percent level. This suggests that there are significant differences across the sampled companies, which pointed the choice of interpreting the regression results using random effect model. Accordingly, Table 6.9 presents the outcome of the Hausman test comparing both fixed random, robust random and OLS for selection. The test is a product of the basic regression and interaction models. It indicates a systematic difference in the coefficients and not correlated due to the $\chi 2$= 17.20 and probability value of 0.3071, which is not significant and favoured the selection of random effect model.

Table 6.9

*Regression Model Selection Criteria Test*

| VARIABLES | robust | random | fixed |
|---|---|---|---|
| *BIND* | 0.112 | 0.112 | 0.0361 |
| | (0.104) | (0.113) | (0.120) |
| *MSOW* | 0.104** | 0.104** | 0.107** |
| | (0.0551) | (0.0495) | (0.0527) |
| *BS* | -0.00651* | -0.00651 | -0.00334 |
| | (0.00463) | (0.00682) | (0.00746) |
| *CEDU* | 0.130 | 0.130 | 0.143 |
| | (0.107) | (0.122) | (0.141) |
| *BGD* | 0.0209 | 0.0209 | -0.0145 |
| | (0.0316) | (0.0431) | (0.0618) |
| *ACIND* | -0.0851** | -0.0851 | -0.00174 |
| | (0.0454) | (0.110) | (0.129) |
| *ACFE* | 0.140** | 0.140* | 0.00299 |
| | (0.0631) | (0.0986) | (0.158) |
| *ACSOW* | 0.0462*** | 0.0462** | 0.0397* |
| | (0.0149) | (0.0272) | (0.0288) |
| *LEV* | 0.0136** | 0.0136 | 0.0195** |
| | (0.00687) | (0.0107) | (0.0111) |
| *FA* | 0.00628*** | 0.00628*** | 0.00117 |
| | (0.00213) | (0.00202) | (0.00692) |
| *FS* | 2.355*** | 2.355*** | 3.333*** |
| | (0.322) | (0.226) | (0.457) |
| *PRAT* | 0.00141*** | 0.00141 | 0.00153 |
| | (0.000566) | (0.00204) | (0.00208) |
| *LEV*ACSOW* | -0.00220** | -0.00220 | -0.00208 |
| | (0.00110) | (0.00208) | (0.00220) |
| *LEV*MSOW* | -0.000298** | -0.000298 | -0.000322 |
| | (0.000178) | (0.000543) | (0.000557) |
| *LEV*BGD* | -0.00483** | -0.00483 | -0.00427 |
| | (0.00222) | (0.00393) | (0.00430) |
| *LEV*BIND* | 0.00187 | 0.00187 | 0.00217 |
| | (0.00444) | (0.0118) | (0.0121) |
| *LEV*ACFE* | -0.00305 | -0.00305 | 0.00317 |
| | (0.00460) | (0.0212) | (0.0231) |
| *LEV*CEDU* | -0.00935** | -0.00935* | -0.0156*** |
| | (0.00584) | (0.00525) | (0.00589) |
| Constant | -4.603*** | -4.603*** | -6.431*** |
| | (0.677) | (0.479) | (0.888) |
| Observations | 505 | 505 | 505 |
| R-squared | 0.340 | 0.340 | 0.290 |
| Number of code | 101 | 101 | 101 |

Robust standard errors in parentheses *** p<0.01, ** p<0.05, * p<0.1. Significant at one-tailed
The dependent variable is financial reporting quality, BIND is board independence, CEDU is chief executive officer duality, MSOW is executive directors shares ownership, BS is the board

size, BGD is the percentage of female directors on the board. ACFE is the audit committee financial expertise, ACIND is audit committee independence, ACSOW is audit committee share ownership, LEV is the interaction effect of leverage (long-term debt), FS is firm size, FA is firm age, PRAT is the profitability, LEV*ACSOW is the interaction effect of leverage in audit committee share ownership, LEV*MSOW is the interaction effect of leverage in managerial share ownership, LEV*BGD is the interaction effect of leverage in board gender diversity, LEV*BIND is the interaction effect of leverage in board independence, LEV*ACFE is the interaction effect of leverage in audit committee financial expertise, LEV*CEDU is the interaction effect of leverage in chief executive officer duality.

## 6.10 Results and Discussion

The results and discussion hereunder are presented to explain the fitness of the regression model. Also, the regression model consisting of interaction variables and its fitness are equally presented.

### 6.10.1 Determinants of Discretionary Accruals

Table 6.10 presents the result of DA models. Estimates from Model 1 presents the regression result of the study without interaction variables while Model 2 presents the result of the study with interaction variables.

## 6.11 Results and Discussion of the Board Characteristics

Board characteristics play a significant role in providing high-quality financial reporting. As a monitoring variable, its efficiency and effectiveness are capable of reducing the level of EM by companies that consequently increases the quality of financial reports produced by those companies.

### 6.11.1 Board Independence and Earnings Management

The study expects a negative relationship between BIND and discretionary accruals. Table 6.10 presents multivariate regression result of the discretionary accruals model (Model 1). The coefficients of BIND is positive and statistically significant at five percent ($\beta$=0.312; *t*-statistics=2.29; $p$<0.011). This suggests that on the average, an increase in board independence by one unit would lead to a corresponding increase in DA by 0.312. Thus, pointing to the fact that BIND increases earnings management activities, leading to a decrease in the quality of earnings. The motive behind engaging the services of NED is to provide an independent opinion leading to unbiased and independent judgements. Broad experience, integrity, and credibility of NED reflected on board decisions are expected to improve the quality of decision with improved monitoring of self-serving managerial activities and minimising the extent of erroneous financial information. That would lead to enhanced shareholder and other stakeholders' confidence on the financial reporting process and reported earnings.

Moreover, agency theory postulates that the higher proportion of outside directors on corporate boards, the higher the quality decisions. Thus, the ability to mitigate agency conflict correlates with the existence of independent boards (Jensen & Meckling 1976). This is because independent boards are strongly concerned about their market reputation and objective in monitoring financial reporting process (Fama & Jenson, 1983), as such the board plays a vital role in reducing information asymmetry and curtailing earnings management.

The finding of this study is consistent with the results of Petra (2007), Rahman and Ali (2006), and Saleh, Iskandar and Rahmat (2005), Dimitropoulos and Asteriou (2010), Abdoli, Maryam, and Rahmani (2011), Usman and Abubakar (2012), Sukeecheep et al. (2013), Ajina, Bouchareb, and Souid (2013), Al-Rassas and Kamardin (2015) who documented a positive relationship between the proportion of NED and EM.

In contrast, prior studies provided proof of a negative relationship between the presence of NED and earnings management (Abed et al., 2012; Siagian & Tresnaningsih, 2011; Al- Momani & Obeidat, 2013; Clout et al., 2013; Ghafran, 2013; Habbash, 2010; Iraya, Mwangi, & Muchoki, 2015; Lin & Halzoubi, 2014; Lo, Wong & Firth, 2010; Ghosh, Marra, & Moon, 2010; Miko & Kamardin, 2015; Osma & Noguer, 2007; Xie et al., 2003; Wang, 2010; Waweru & Riro, 2013).

Nevertheless, the results in Model 2 of Table 6.10, provides an interesting result. The coefficient of BIND appears positive but statistically insignificant ($\beta$= 0.112; *t*-statistics 1.070; $p$<0.141). This indicates that on average, a unit increase in board independence increases DA by 0.112, *ceteris paribus*. Thus, the relationship between board independence and DA is positive but insignificant, which is in contrast to the study's prediction. The result further supports the outcome of Model 1 that independence of boards could not provide enough monitoring role in curtailing EM practices in the Nigerian non-financial firms. Besides, the results in both Model 1 and Model 2 are in contrast with the study's hypothesis (H1a) that the presence of independent NED has a negative relationship with earnings management. Therefore, H1a is not supported.

Furthermore, the outcome of the study result is corraborated with the robustness result that the coefficient of the board independence was negative (-2.060) and significant at 1%. Thus, the board independence has a negative value relevance in the Nigerian capital market. This implies that the attention of the regulators has to be called to review the definition, appointment and the role of independent non-executive directors in managing the affairs of the firms. The finding also revealed the existence of black box between the intention of the regulators on the board independence and the expectation of the market participants. Thus, this issue needs to be addressed.

One possible reason could be the influence of management in appointing non-executive directors, or non-executive directors are overstaying that leads to familiarity in the board to the extent that managers can influence their decisions. According to Davidson et al. (2005), the board of directors' inability to control irregularities might be due to non-executive directors' ability to be essentially independent of management. Despite the outcome of the study result, the resource dependency theory postulates that outsiders on boards have the significant human capital sourced from lawyers, financial experts, experienced managers from other firms, marketing specialists, and former public servants who are argued to facilitate advice and counsel as they bring with them necessary expertise, experience and skills (Hillman & Dalziel, 2003).

### 6.11.2 Managerial Share Ownership and Earnings Management

Managerial share ownership (MSOW) is measured by the proportion of equity held by the ED on the corporate board to total equity shareholding of the firm. MSOW is predicted to have a positive and significant relationship with earnings management. Agency theory predicts that if managers own a substantial percentage of firm equity, they need not be monitored (Jensen & Meckling, 1976) due to their stake in the ownership of the firm. In Table 6.10 Model 1, the result indicates a positive relationship between MSOW and DA. The result shows that MSOW has a positive and statistically significant influence over the DA of the non-financial listed firms in Nigeria ($\beta$ =0.126, t-statistics= 3.070, $p$<0.001) at 1 percent level.

Consequently, the outcome suggests that a unit increase in the proportion of equity holding of the executive board directors would lead to an increase in the same percentage to abnormal accruals, leading to a decrease in the quality of firm's earnings. Therefore, increasing the MSOW of a firm would lower the monitoring and control of manager's entrenchment effect. It would further create more EM practices by the management, leading to declining financial reporting quality of the firms.

However, Table 6.10 Model 2 shows similar results, where the result shows a positive and statistically significant relationship between MSOW and DA ($\beta$ =0.104, t-statistics= 1.900, $p$<0.029) at 5 percent level. Furthermore, the result indicates that MSOW increases the use of DA and as such, has weak monitoring capability to curtail EM practices in the listed firms. Therefore, Models 1 & 2 of this study provide further evidence that when long-term debt is introduced into the CS of a firm, it creates more opportunities for the use of abnormal accruals that pave the way for EM practices thereby decreasing the quality of earnings of the firms. The outcome of this study is consistent with prior research (Cheng & Warfield, 2005; Johari, Saleh, Jaffar, & Hassan, 2008; Hashim & Devi, 2008; Nedal, Bana, & David, 2010) that managers may be encouraged in employing DA in an attempt to recoup earnings and value of their stock holdings through higher managerial ownership.



Thus, firms with higher managerial ownership are associated with more EM. In contrast, Warfield, Wild and Wild (1995), Yeo, Tan, Ho, and Chen (2002), Pedro and Emma (2007), Mustapha and Che-Ahmad (2010), Alves (2012), Rose, Mazza, Norman, and Rose (2013), Ajina et al. (2013), and Miko and Kamardin (2015) found an inverse relationship between MSOW and EM, thus improving the financial reporting quality of the firms. Thus, provides support for H1b of this study. Consequently, the result corraborate value relevant robusts test with the negative reaction of the market when managers own equity in the firm. The coefficient of managerial ownership was negative (-0.4678) and significant at 5%. This implies that capital market participants are of the view that managerial ownership triggers the level of insider dealings in a firm. Therefore, they discount the value of those firms with the managerial ownership.

One plausible reason for this result is the SEC Code of CG, Section 14.7 and 34(d) requirements for unrestricted amount of shares held by all directors and their interest in the company including its subsidiaries whether on the propriety or fiduciary basis, including direct and indirect holdings. Thus, it provides no limit to the amount/unit of shares to be held by both executive, non-executive and ID. Consequently, when managers are allowed to own substantial number of equity in the company, Yeo, Tan, Ho, and Chen (2002) argue that managers need to be controlled and managed, otherwise share ownership may increase the opportunistic behaviour of managers, leading to a decrease in the quality of financial reports. As such, managers would serve their personal interest to ensure manupulation of earnings to protect their equity holdings in the company. In this respect, the privileged information they have as inside directors would be used which leads to moral hazard, and higher agency cost. This is in line with agency theory's assumption that minimising directors equity ownership leads to the decrease in agency cost.

### 6.11.3 Board Size and Earnings Management

The regression results in Table 6.10 Model 1 highlights the ($\beta$=-0.010 t-statistics -1.63 with a $p$<0.052) which present a negative and statistically significant relationship between BS and earnings management at 5% level. It further indicates that one additional member on the board of directors would lead to a corresponding decrease in the earnings management practices. Consequently, a decline in EM would improve the EQ of the Nigerian non-financial companies.

Therefore, the result is aligned with prior studies that provided evidence that larger boards demonstrate more commitment, devote more time and effort in the monitoring and control of top management actions by reducing earnings management practices (Rahman & Ali, 2006; Hashim & Devi, 2008; Rajagopalan & Zhang, 2008; Monks & Minow, 2011; Hashim & Ibrahim, 2013; Sama'ila, 2014). Thus, the larger the size of the board, the lower the earnings management and the higher the quality of company earnings.

Accordingly, Model 2 in Table 6.10 presents ($\beta$= -0.007, t-statistics=-1.410 and $p$<0.080), that indicates a negative and statistically significant relationship between BS and EM at 10 percent level. Although the effect size and the probability value have similar magnitudes, with Model 2 providing a level of significance at 10 percent, the direction of the relationships signifies that the size of the boards matters in monitoring and curtailing levels of EM. The study result is consistent with Peasnell et al. (2001), Xie et al. (2003), Ebrahim

(2007), Coles et al. (2008), Yu (2008), Habbash, (2010), Alves (2011), Rouf (2011), Hsu and Wen, (2015) and Iraya et al. (2015) findings, that a negative association exists between EM and BS. It thus supports the predicted result of a positive relationship between BS and FRQ. In contrast, previous studies (Saleh et al., 2005; Rahman & Ali 2006; Jaggi & Leung, 2007; Nugroho & Eko 2012; Hassan & Bello 2013) found positive and statistically significant relationship between board size and EM. Similarly, Ajina, Bouchareb, and Souid (2013) found positive and statistically insignificant association between BS and EM. Their findings showed that a larger board exhibits ineffectiveness in monitoring function.

The differences in the two findings might be due to differences in sample sizes, methodological approach, markets, and differences in corporate governance practices. Furthermore, considering the Nigerian SEC Code of CG, 2011 that requires a minimum of five (5) board members. Table 5.1 indicates a mean of 8.392 with a minimum BS of 4 and maximum of a 16-member board, which may provide possible reasons for the boards of non-financial listed firms in Nigeria effectively to provide strong monitoring ability over the self-motivated managerial activities. It further justified the revised Code 2003 that restricted board size to the maximum of 15 members. Consequently, the fact that a larger board might compose of members with vast industrial and governance experience could be enough to form into sub-committees that could provide strict and efficient monitoring roles. On the other hand, size could handicap a smaller board in handling more challenging responsibilities thereby restricting their oversight functions. Thus, the result supported the RDT preposition that the larger the size of the board, the higher the number of expert resources it drew from the outside environment. It further enables quality deliberations and leading to higher performance. In other words, the result supports a negative association between board size (BS) and earnings management (H1c).

Accordingly, the value relevance of BS on share price was tested which corraborated the accruals quality results. Thus, the relationship between SP and the board size was positive (0.1869) and significant at 1%. This indicates that the more the number of persons on the board, the more the shared expertise and effective monitoring. These encourage the market to respond positively to the board size.



### 6.11.4 Chief Executive Duality and Earnings Management

In line with stewardship and Agency theory on CEO duality, Chief Executive Officer Duality (CEDU) in this study is expected to have a either negative or positive relationship with EM. The result of this study indicates a one unit increase in the CEDU leads to 0.197 increase in DA by the Nigerian non-financial listed firms as shown in Table 6.10 Model 1 ($\beta$ =0.197, *t*-statistics = 2.16, *p*-value 0.030). This indicates that holding the two positions of the CEO and chair of the corporate boards, significantly increase the use of DA leading to EM practices by the management at 5 percent level. It further reveals that the quality of firm's earnings would reduced. This is in line with the argument that combining the two positions of CEO and chair of the board would decrease the monitoring function of mitigating EM (Jensen, 1993). Thus, the finding of this study is consistent with prior studies that found a positive relationship between CEO duality and EM (Xie et al., 2003; Saleh et al., 2005; Rahman & Haniffa, 2005; Mohamad et al., 2012; Nugroho & Eko, 2012; Ajina et al., 2013; Taktak & Mbarki, 2014; Alzoubi, 2014; Zouari, Lakhal, & Nekhili, 2015; Hsu & Wen, 2015; Iraya et al., 2015). This suggests that the more CEO serves as companies board chair, the higher the tendency to manipulate earnings and conceal relevant information away from the stakeholders. Thus, it will negatively affect the financial reporting quality of the firm.

The fact is that Nigerian SEC Code of CG, 2003 allowed the same individuals to hold the two positions of CEO and board chair in public companies. The revised Code 2011, disallowed it for purposes of checks and balances and to avoid over-concentration of powers in a single person. The result of this study justified the fear of SEC as provided in the SEC Code of CG, 2011, Section 5.1(b). However, it is in line with agency theory prediction that separating the two positions reduces the power of the CEO and as a result, enables better board monitoring.

The result in Model 2 Table 6.10 provides similar outcome (β=0.130, *t*-statistics 1.210, *p*-value 0.224). Despite the introduction of LEV, the result shows that the magnitude of the impact of long-term debt on the CEDU and level of DA relationship of the non-financial listed firms remain the same, suggesting that CEDU and EM have a positive relationship that impacted negatively on the EQ of the sampled firms. Further, the concentration of power on a single person particularly involving executive as well as the board of directors' decision could be manipulated. Again, the CEO whose performance appraisal, assessment and compensation is to be made by the board to whom he is the chair, is unlikely to be objective. As such, with CEDU, CEO would possibly use it to manipulate financial information in his favour, thereby misleading the shareholders and capital markets in taking a wrong decision. Subsequently, the quality of financial reports would be put to question. Thus, it provides support for H1d.

On the contrary, in support of the stewardship theory perspective of aligning the interest of the agent and the principal, prior studies results differ with the findings. Kao and Chen (2004), Coombs and Wong (2004), Bradbury et al.(2006), Rahman and Ali (2006), and Ajina, Bouchareb, and Souid (2013) document that CEO duality actions are unlikely to be self-serving, as such the CEO would aim to achieve organisational objectives.

Table 6.10
*Determinant Model of Discretionary Accruals Model*

| | | Model 1 | | | Model 2 | | |
|---|---|---|---|---|---|---|---|
| **Variables** | **Expected sign** | **coefficient** | **t-statistics** | **p-value** | **Coefficient** | **t-statistics** | **p-value** |
| *BIND* | - | *0.312* | *2.29* | *0.011* | *0.112* | *1.070* | *0.141* |
| *MSOW* | - | *0.126* | *3.07* | *0.001* | *0.104* | *1.900* | *0.029* |
| *BS* | +/- | *-0.010* | *-1.63* | *0.052* | *-0.007* | *-1.410* | *0.080* |
| *CEDU* | + | *0.197* | *2.16* | *0.030* | *0.130* | *1.210* | *0.224* |
| *BGD* | - | *0.054* | *1.72* | *0.084* | *0.021* | *0.660* | *0.508* |
| *ACIND* | - | *-0.224* | *-4.22* | *0.000* | *-0.085* | *-1.870* | *0.035* |
| *ACFE* | - | *0.203* | *5.73* | *0.000* | *0.140* | *2.220* | *0.013* |
| *ACSOW* | - | *0.031* | *5.48* | *0.000* | *0.046* | *3.090* | *0.001* |
| *LEV* | + | *0.001* | *1.59* | *0.057* | *0.014* | *1.970* | *0.025* |
| *FA* | -/+ | *0.007* | *5.13* | *0.000* | *0.006* | *2.940* | *0.001* |
| *FS* | -/+ | *2.007* | *13.31* | *0.000* | *2.355* | *7.320* | *0.000* |
| *PRAT* | + | *-0.000* | *-0.10* | *0.461* | *0.001* | *2.490* | *0.007* |
| *LEV*ACSOW* | - | | | | *-0.002* | *-2.010* | *0.023* |
| *LEV*MSOW* | - | | | | *-0.000* | *-1.680* | *0.047* |
| *LEV*BGD* | - | | | | *-0.005* | *-2.180* | *0.014* |
| *LEV*BIND* | - | | | | *0.002* | *0.420* | *0.337* |
| *LEV*ACFE* | - | | | | *-0.003* | *-0.660* | *0.254* |
| *LEV*CEDU* | - | | | | *-0.009* | *-1.600* | *0.054* |
| *_CONS* | | *-3.940* | *-11.91* | *0.000* | *-4.600* | *-6.800* | *0.000* |
| R-Squared | | | | 0.340 | | 0.340 | |
| F-Value | | | | 27.410 | | - | |
| Wald chi-square | | | | - | | 3189.520 | |
| Sig. | | | | 0.000 | | 0.000 | |

Robust standard errors in parentheses *** p<0.01, ** p<0.05, * p<0.1. Significant at one-tailed The dependent variable is financial reporting quality, BIND is board independence, CEDU is chief executive officer duality, MSOW is executive directors shares ownership, BS is the board size, BGD is the percentage of female directors. ACFE is the audit committee financial expertise, ACIND is audit committee independence, ACSOW is audit committee share ownership, LEV is the interaction effect of leverage (long-term debt), FS is firm size, FA is firm age, PRAT is the profitability, LEV*ACSOW is the interaction effect of leverage in audit committee share ownership, LEV*MSOW is the interaction effect of leverage in managerial share ownership, LEV*BGD is the interaction effect of leverage in board gender diversity, LEV*BIND is the interaction effect of leverage in board independence, LEV*ACFE is the interaction effect of leverage in audit committee financial expertise, LEV*CEDU is the interaction effect of leverage in chief executive officer duality.

### 6.11.5 Board Gender Diversity and Earnings Management

Gender diversity on the boards of Nigerian non-financial listed firms is expected to have either positive or negative and significant relationship with earnings management. Table 6.10 Model 1 presents the multivariate regression result of BGD relationship with FRQ proxy by DA. It provides (β=0.054, t-statistics=1.72 and p-value=0.084), which suggests a statistically positive and significant relationship between BGD and DA at 10 percent level. It further reveals that a percentage increase of one female director would cause an increase in the use of DA by a factor of 0.054 leading to more EM practices. Thus, an increase in EM practices would lower the quality of the firms' earnings.



However, the relationship between BGD and EM changed with the introduction of moderating variable (LEV) into the relationship. In Table 6.10 Model 2, the result shows (β=0.021, t-statistics= 0.660, *p*-value=0.508). Therefore, the result provides evidence that a unit increase in the proportion of women on the corporate boards of Nigerian listed non-financial companies would lead to an increase in EM practices by a factor of 0.021. Accordingly, the presence of women on boards is not in any way a contributing factor towards restraining earnings manipulations, even when long-term debt facilities are injected into the CS of the firms. The argument advanced by previous studies (Srinidhi, Gul, &

Tsui, 2011; Ittonen, Peni, & Vahama, 2015; Triana, Miller, & Trzebiatowski, 2014; Barua, Rama, & Sharma, 2010; Obert, 2015) on the financial discipline, conservatism in financial reporting practices, and courage in exposing fraudulent activities leading to their ability to monitor and prevent earnings manipulations could not be supported. Therefore, this study could not prove that gender diversity leads to a decrease in earnings management practices significantly using accruals quality measure in the Nigerian non-financial listed firms.

On the other hand, the robust test on value relevance of BGD provided mixed results. Thus, the coefficient of the board gender was found to be positive (0.2961) and significant at 5%. This indicates that the appointment of female directors on the board is value relevant. Thus, it lends support to the argument that female directors are more dedicated and more trustworthy in discharging their corporate responsibilities. From the descriptive statistics, women constitute 10 percent of the board composition in gender terms, in the entire 101 non-financial listed firms in Nigeria. Given this inadequate proportional representation, it could serve as a possible reason why the result indicates their inability to monitor effectively and restrain EM practices as observed (Lincoln & Adedoyin, 2012; Obert, 2015).

Further, the result did not account for other female directors' characteristics in terms of additional knowledge, skills and expertise and other non-financial outcomes brought to the board. Nevertheless, the finding of this result did not contradict that presence of women on corporate boards has no positive impact, rather, the minimal proportion of women on the corporate boards of Nigerian non-financial listed firms does not accord them adequate monitoring control in reducing EM practices. Thus, this provides support for a relationship between BGD and earnings management (H1e).

## 6.12 Results and Discussion of the Audit Committee Characteristics

The past two decades witnessed significant interest in the governance role of audit committee. Much of these interest emerged from the regulators who consider AC as a strong governance mechanism that can provide a noticeable improvement in the quality of financial reporting. Similary, scholars focus not only on AC composition but its effectiveness. Recently, regulators acknowledged that AC is quasi-mandatory and shifted from composition to expertise, and the relationship with governance constituent within the firms. The particular contribution of this study is its focus on specific characteristics of AC and the impact of these characteristics on earnings management of Nigerian non-financial listed firms.

### 6.12.1 Audit Committee Independence and Earnings Management

The Nigerian SEC CG Code 2011 requires formation of a six-member audit committee with three (3) independent/non-executive board members and three shareholders' representatives. The aim is to ensure independence of the committee and to reduce information asymetry between the board and shareholders. A significant negative relationship is predicted between the ACIND and earnings management. The outcome of the regression result in Table 6.10 Model 1 indicates a negative but statistically significant association between ACIND and DA ($\beta$ = -0.224, t-statistics= -4.22, and $p$<0.000) at 1 percent level. It suggests that a unit increase in ACIND by 0.224 would lead to a corresponding decrease in EM leading to improvement in the firm's quality of earnings. This result further proves that the existence of ACIND would improve the monitoring functions of the committee thereby curtailing the opportunistic tendency of managers in manipulating earnings. Therefore, the result supports the study's prediction of a negative relationship between ACIND and earnings management. Furthermore, the result is supported by prior reported findings of Klein (2002), Saleh, Iskandar and Rahmat (2007), Lin and Hwang (2010), García et al. (2012), Bassiouny, Ragab, and Soliman, (2016), Mansor et al. (2013), and Salleh, and Haat, (2014), Sharma and Kuang (2014), Soliman and Ragab (2014) and Al-Rassas & Kamardin (2015) that found a negative relationship between ACIND and EM.

Consequently, the result in Model 2 Table 6.10 provides similar result in Model 1, Table 6.10, where it provides ($\beta$= -0.085, t-statistics= -1.870, $p$-value= 0.035). It shows no significant departure from the result in Model 1. Thus, a unit increase in the ACIND by 0.085 would lead to a corresponding decrease in the

EM of the firms. Further, the result suggests a negatively and statistically significant relationship between ACIND and EM at 5 percent level.

Therefore, the result corroborates the agency theory that the more independent NED are on the corporate boards, the higher the monitoring role which brings along expertise and experience that leads to improved earnings quality. It further supports the RDT that independent directors on the boards provide more assistance in gaining the desirable resources. This is because directors have expertise, experience, independent opinion and more linkages with the outside environment that is necessary for organisation's survival and effective monitoring functions.

In contrast, Agrawal and Chadha (2005), Ahmad Zaluki (2010), Bedard and Johnson (2004), Bradbury et al. (2008), Siagian and Tresnaningsih (2011) and Miko and Kamardin, (2015) found a positive relationship between ACIND and EM. Thus, this suggests that ACIND does not reduce but rather motivates EM. In particular, the more ACIND, the higher the EM, which decreases the financial reporting quality. In addition, Habbash (2013) and Waweru and Riro (2013) found an insignificant relationship between ACIND and EM. As a result of the inconsistent findings on AC independence and use of DA/EM, the result of this study is aligned with previous studies' findings on the adverse relationship between ACIND and EM leading to higher accruals quality as a result of which firms earnings quality is achieved. Perhaps, the outcome of this result is consequent upon the Nigerian SEC Code of CG 2011 requirements on the three-member board of director's representatives on AC, which comprises of independent non-executives directors. Thus, it further supports Klein's (2002) findings that where AC is composed of a significant number of independent NED, the ability to restrain DA would be higher. Thus, providing support for H2a.

Additionally, the robustness test using value relevance (price-earnings) model corraborated the accruals quality measure, where the coefficient of the audit committee independence was found to be positive (0.8883) and significant at 5%. This indicates that the appointment of independent directors into the audit committee is value relevant. This supports the notion that with more independent directors on the audit committee, the higher the objectivity in preventing and curbing fraudulent activities in a firm.



### 6.12.2 Audit Committee Financial Expertise and Earnings Management

The result of the relationship between ACFE and DA is expected to have a negative and significant association. Thus, the result in Table 6.10, Model 1 presents ($\beta$=0.203, *t*-statistics 5.73, *p*-value 0.000) that is contrary to the expectation of the study. However, the result indicates that one unit increase in ACFE leads to 0.203 increase in DA. The result further indicates that, there is a positive and statistically significant relationship between ACFE and EM at 1 percent level. Impliedly, the presence of a literate financial member on the audit committee does not provide enough justification for curbing EM and improving the quality of firms' earnings. Instead, ACFE encourages the use of DA that allow managers to engage in earnings manipulation. Similarly, Model 2 in Table 6.10, provides (β=0.140, *t*-statistics=2.220, *p*-value 0.013) that indicates a positive and statistically significant relationship between ACFE and EM. It shows that a unit increase in ACFE by 0.140 would lead to a corresponding increase in EM practices, decreasing EQ by the same magnitude and causes a decline in the FRQ of the firms. Furthermore, the relationship between ACFE and DA remains the same between Model 1 and Model 2 of the study. However, the impact weakened in Model 2 as a result of the moderating (LEV) introduced into the relationship.

The study's findings are consistent with Hoitash, Hoitash, and Bedard (2009) and Mustafa and Youssef (2010), Mohamad, Rashid, and Shawtari (2012) that could not establish a strong relationship between ACFE and EM. Furthermore, firms with a high proportion of financial experts, not necessarily accounting experts are unlikely to report weaknesses in the internal control over financial reporting. In fact, it is only when an accounting expert is on the AC, pertinent and primary accounting related questions would be raised that has an overall bearing on the financial report (Scarpati 2003; Lipman 2004, DeZoort 1997, 1998, Dhaliwali, et al., 2010). In contrast, prior studies (Saleh et al., 2007; Qin, 2007; Chen & Zhou, 2007; Kent et al., 2010; Yusof, 2010; Badolato et al., 2014; He & Yang, 2014; Sharma & Kuang, 2014; Alzoubi, 2014; Soliman & Ragab,

2014) document ACFE to have monitoring power to curtail EM practices in addition to high quality earnings reporting. Thus, this provides no support for H2b.

Consequently, statistics indicate that 94 percent of the sampled companies have at least a member of the AC who can read and understand financial statements. Besides that, the size of firms' operations, sophistication in financial transactions and internationalisation of financial reporting process. Financial literacy alone without accounting expertise may not provide the required skills and technical know-how to monitor and curtail EM practices in the Nigerian non-financial listed firms.

Many reasons may lead to this finding. First, SEC Code of CG, 2011 provision requires the presence of only one financially literate member of the AC, not accounting or financial expert that has the capacity and expertise to detect fraudulent activities including managerial entrenchment effects. Secondly, the inability of the literate members to equip and update themselves with the latest manipulation techniques. Thirdly, different measurement of financial expertise may cause the difference in the result. Fourthly, overstay of directors in the audit committee can lead to management influencing their decisions and lastly, holding multiple responsibilities in another capacity. When the proportion of experienced accounting or finance experts are not sufficient enough, monitoring and controlling managerial self-interest in the sampled companies might be difficult, particularly in larger and chronological age companies.

### 6.12.3 Audit Committee Share Ownership and Earnings Management

Table 6.10 presents the results of multivariate regression Model 1 and Model 2. Regression result of Model 1, highlights ACSOW ($\beta$ =0.031, t-statistics of 5.48 and $p<0.000$). This suggests that there is a positive and statistically significant relationship between ACSOW and EM at 1 percent level. As a consequence, one unit increase in equity ownership of NED on audit committee will cause a corresponding increase in the level of EM practices by 0.031. This result further suggests a decrease in the quality of firms' earnings which would lead to a reduction of the quality of financial report of the listed firms.

Therefore, the result shows that equity ownership in the company that is expected to motivate AC members to demonstrate more commitment, vigilance (Mangena & Pike, 2005) and effort towards monitoring and controlling could not curb opportunistic managers from earnings manipulation. It further signifies that ACSOW, which is intended to serve as an incentive to AC members, and aligns their interest with shareholders interests, fails to meet the objective. Similarly, the Model 2, Table 6.10 result shows that the sign of the coefficient remain positive ($\beta$=0.046, t-statistics=3.090, $p<0.001$), and the probability values of the two models provide statistically significant relationships between ACSOW and DA at 1 percent level. Therefore, the result indicates that a unit increase in equity share owned by the non-executive audit committee members would lead to a corresponding increase in the level of EM by 0.046. As a result, the EQ of the firms would decrease significantly. The findings of this study is in consonance with prior research (Forker, 1992; Lavelle, 2002; Carcello & Neal, 2003; Choi et al., 2004; Yang & Krishnan, 2005; Lin & Hwang, 2010b; Ghosh, Marra, & Moon, 2010) which argued that AC members with high equity holdings may seek to influence firms to protect their investments and provide incentives for earnings information of lower quality, which may weaken their ability to monitor and control EM practices.

In contrast, prior studies that argued ACSOW reduces agency costs (Jensen, 1993; Jensen & Meckling, 1976; Shivdasani, 1993; Beasley, 1996; Martinez & Fuentes, 2007) found a negative association between ACSOW and EM practices leading to improved EQ of the firms. The result did not support the agency theory of providing a reduction in the asymmetric information and the agency cost. Thus, it provides no support for H2c.

One plausible reason for the outcome might be the non-disclosure of the share ownership of NED of some companies in the governance report of the companies' annual report. Secondly, the composition of the AC in Nigeria consists of three shareholders' representatives, whose shareholdings are not disclosed in the governance report. Had the shareholders' equity holdings are mandatorily required to be disclosed, perhaps the result would have been different.

### 6.12.4 Leverage and Earnings Management

Leverage is proxy by long-term debt and expected to have a positive and significant association with earnings management. Leverage (LEV) is measured by the amount of long-term debt to total assets of the company. In Table 6.10 Model 1 provides the result, indicating that a positively significant relationship exists between LEV and DA at 5 percent level ($\beta$ =0.001, t-statistics= 1.59, $p$<0.057). It suggests that a unit increase in the proportion of long-term debt would lead to a corresponding increase in the level of DA by a factor of 0.001. Further, an increase in the degree of the firm's CS through long-term debt acquisition would make funds available at the disposal of the management. These funds are unlikely to be fully utilised in the interest of shareholders. Instead, it may generate more opportunities for managers entrenchments.

Accordingly, Table 6.10 Model 2, presents similar results as in Model 1, with LEV having a positive and statistically significant relationship with DA ($\beta$ =0.014, t-statistics= 1.970, $p$<0.025) at 5 percent level. In this regard, acquisition of additional long-term debt into the CS of the non-financial Nigerian listed firms would motivate EM practices due to the available funds. The higher the leverage a company has, the higher the likelihood of bankruptcy, which might result in litigation risk. Thus, highly leveraged firms are susceptible to engage in earnings manipulations to forestall debt covenant violation. As a result, creating an opportunity for the management to manipulate earnings to mitigate those risks. Therefore, when managers pursue their self-interests, it would negatively affect shareholders' wealth maximisation which would lead to a reduction in the quality of firm's earnings. The outcome of this result is in consonant with DeFond & Jiambalvo, (1994), Dechow et al., (996), Becker et al. (1998), Rahman and Ali (2006), Knechel, Sharma and Sharma (2012), Yisau (2013), Ajina, Bouchareb, and Souid (2013) Liu and Wang (2015), Miko and Kamardin (2015), and Al-Rassas and Kamardin (2016) which document that leverage has a positive and statistically significant association with DA.

In contrast, Yang and Krishnan (2005), Jelinek (2007), Dwi et al. (2009), Adelopo (2010), Cristini (2010), Jiraporn et al. (2012), Zamri et al. (2013), Chan et al. (2013), Usman (2013), Paz and Griffin (2014), Afza and Rashid (2014), Zouari, Lakhal, and Nekhili (2015) document that long-term debt (LEV) reduces EM activities and improves EQ as a result of high monitoring role by creditors. Therefore, the outcome of this study is in agreement with the study's hypothesis (H3a) that there is a positive relationship between leverage and earnings management in the Nigerian non-financial listed firms. The results of the moderator in Model 1 and Model 2 is similar. Hence, the study's hypothesis (H3a) is supported.

## 6.13 Results and Discussion of the Control Variables

### 6.13.1 Firm Size and Earnings Management

The size of a firm determines its ability to mitigate agency conflict and in turn reduces agency costs (Jensen & Meckling, 1976). In measuring firm size, natural logarithm of total assets was used. This study predicts to have either positive or negative association with DA. Table 6.10 Model 1 of the study provides ($\beta$=2.007, t-statistics= 13.31, *p*-value=0.000). It signifies that a unit increase in the size of the firm would lead to an increase in the use of DA (EM) by a factor of 2.007. It shows a positive and statistical significance in the relationship between FS and EM. It further suggests that as the size of a firm increases or the larger the size of a firm, the more it engages in EM practices. This result is in consonant with Lobo and Zhou (2006) and Uwuigbe, Ranti, Uwuigbe, and Bernard's (2015) findings, that opportunities for overstating earnings lie with larger firms, due to operational complexities that make it difficult for financial statement users to detect. As a result, the studies document that there is a significant positive relationship between firm size and DA (EM).

Furthermore, the results in Model 2 Table 6.10 is not different from the results in Model 1, Table 6.10, that shows ($\beta$=2.355, t-statistics= 7.320, *p*-value=0.000). With positive coefficient, the result indicates that a unit increase in the size of a firm (FS) would cause a significant increase in EM practices in the Nigerian non-financial listed firms. Thus, a positive and statistically significant relationship exist between FS and EM at 1 percent level. The outcome of this study suggests that the bigger the size of the firm, the more it engages in earnings manipulations, leading to a decrease in the quality of firm's earnings, which in turn reduces the financial reporting quality of the firm.This result is consistent with Rahman & Ali (2006), Lobo & Zhou (2006), Banderlipe & Reynald (2010), Chen & Zhou (2007), Habbash (2010), and Jiang et al. (2008). Alzoubi (2014) argued that the larger the firms, the more the potential for EM, due to their operational complexities, to retain consistent earnings growth and the desire to maintain or beat earnings' expectations.

### 6.13.2 Firm Age and Earnings Management

Firm Age is considered to be the number of years a company passed since being listed on the Nigerian SEC. Firm age is predicted to have either a positive or negative association with DA. The result indicates that FA coefficient is positive and has a statistically significant value. The results in Table 6.10, Model 1, indicate that there is a positive and statistically significant relationship between FA and DA at 1 percent level ($\beta$ =0.007, t-statistics= 5.73, $p<0.000$). Furthermore, the results signify that for every unit increase in the years of listed company, there would be a corresponding increase in the use of DA leading to EM practices by a factor of 0.007.

Consequently, the findings highlight that the longer a firm serves as a listed company, the higher the tendency to engage in earnings manipulation. As a result, newly listed firms may not have the ability and courage to engage in EM, due to fear of violating the SEC rules that they are not conversant with. Also, newly listed companies may want to be established and recognised by the market participants. Equipped with the operating rules or standards and for fear of being sanctioned, may avoid any unethical practices. Similarly, the results in Table 6.10, Model 2, show that the coefficient on the FA measure with intervening variable (LEV) is positively associated with DA. It further suggests that a unit increase in the number of years spent as a listed company would lead to an increase in the EM practices. The findings showed that there is a positive and statistically significant relationship between FA and EM ($\beta$=0.007, t-statistics= 5.73, $p$<0.001) at 1 percent level. Therefore, the two Models (1&2) indicate that FA is a perfect predictor of EM practices in the Nigerian non-financial listed firms.



The ability to monitor and control the use of DA is widely based on the longevity of companies in the market. However, prior studies (Magnan & Cormier, 1997; Roosenboom et al., 2003; Aerts et al., 2007) document that firms deliberately increase their reported earnings during their year of incorporation, geared towards achieving IPO forecast. Arguing along the same line, Teoh et al. (1998) provided evidence that companies recorded poor stock price performance in its first year of incorporation when they reported positive accruals spanning over a period of three years. In contrast, this study's result shows that EM practices are associated with firms which have been listed longer than the recently listed firms.

### 6.13.3 Profitability and Earnings Management

Profitability is used in measuring firm management performance. Therefore, the management of a profitable firm is expected to pursue or adopt measures that would provide support for the continuance or retention of profitable positions and performance related activities. As such, profitability is capable of inducing managers in manipulating company's earnings in their annual reports in an attempt to meet performance benchmark. In Table 6.10, Model 1 of this study, the results indicates that profitability has a negative coefficient of -0.000. Further, the result shows that profitability has a negative and statistically insignificant relationship with EM (β= -0.000, t-statistics= -0.10, $p$<0.461). This suggests that availability of firm's annual profits discourages the use of DA leading to less EM practices in the Nigerian non-financial listed firms. Although the relationship is not significant, it provides evidence that firms with higher profitability are unlikely to engage in EM, thereby enhancing the EQ of the firms.

Consequently, Table 6.10 Model 2, presents positive results with profitability coefficient of 0.001, signifying that a unit increase in profitability would lead to an increase in the use of DA by a factor of 0.001. Further, the results indicate a positive and statistically significant relationship between PRAT and EM (β=

0.001, t-statistics= 2.490, *p*<0.007) at 10 percent significance level. The outcome of this result shows that whenever a non-financial listed company acquires long-term debt, it will send a signal of funds availability, and that would cause a change in the behaviour of managers by increasing the use of DA, through extra spending, resulting in an increase in EM practices. When that happens, the quality of firm's earnings would decrease, leading to a corresponding decline in the quality of the financial report. Thus, the findings of this study is consistent with prior research like Al-Shammari (2005), Ahmad and Mansor (2009) and Kamaruzaman, Mazlifa and Maisarah (2009). Yisau (2013) documented a positive association between profitability and EM, leading to lower EQ. In contrast Ali et al. (2004), Chen & Yuan (2004), Akhtaruddin (2005), Barako (2007), Dwi et al. (2009), Adelopo (2010), Nedal et al. (2010), and Usman (2012) document that a firm's profitability enhances EQ leading to improved financial reporting quality. One of the plausible reasons for this result could be that for these companies to continue operating, they have to convince potential investors of consistent growth in earnings, which in turn may require them to engage in income-increasing EM practices.

## 6.14 Results and Discussion of the Moderator

### 6.14.1 Moderating Effect of Leverage on the Relationship between Audit Committee Share Ownership and Earnings Management

Table 6.10 presents the results of interaction (Model 2). The results from the multivariate regression model show that an interaction between leverage and audit committee share ownership appears negative but statistically significant at conventional level (β= -0.002, t-statistics= -2.010, *p*-value=0.023). This shows that on the average, a unit increase in the proportion of equity ownership of ED on the audit committee would lead to a decrease in the use of DA by a factor of 0.002. The outcome of this study demonstrates that with the interaction between LEV and ACSOW, the magnitude of EM practice would be reduced and it can provide effective monitoring of financial reporting process. Hence, earnings information would strongly be of higher quality. Consistent with agency theory, Martínez and Fuentes (2007) also established that a positive relationship exists between the equity holdings of AC member and FRQ.



Moreover, the result signifies that any additional long-term debt to the firm's CS would improve the EQ of the non-financial listed firms in Nigeria. As a result, financial reporting quality of the firms would significantly improve. In this respect, the findings of this study are supported by (Jensen, 1986; Denis & Denis, 1993; Jelinek; 2007; Zamri et al., 2013) who argue that an increase in leverage reduces earnings management and that the level of leverage has an influence on financial reporting quality. It further suggests that the provision of additional financing using long-term debts, provides management with additional funds which bring in external monitors that monitor how funds generated from external funding are utilised and managed.

Also, the demand for the repayment of the principal and interest associated with the debt is another factor that controls managers' perquisite and unsolicited spending. Besides, the outcome of this study supports the hypothesis ($H5_b$) which states that leverage moderates the relationship between AC share ownership and FRQ of the Nigerian listed firms. Hence, $H5_b$ is supported.

### 6.14.2 Moderating Effect of Leverage on the Relationship Between Managerial Share Ownership and Earnings Management

Table 6.10 provides the results of interaction model (Model 2). It turns out from the multivariate regression model that an interaction between leverage and managerial share ownership appears negative and statistically significant at conventional 5 percent level (β= -0.000, t-statistics= -1.680, p-value=0.047). The results show that on the average, a unit increase in equity shareholding of ED on the board of Nigerian non-financial listed firms would cause a decline in the use of DA and subsequent decrease in EM practices. The subsequent decrease in EM practice by the firms would provide quality financial information for efficient and effective decision-making. It would further enhance confidence in the informativeness of firms' earnings by investors, shareholders as well as the capital market. Furthermore, the results on the relationship between MSOW and DA in Model 1, failed to curb EM practices. Instead, it causes statistically significant increases.

However, with the interaction of LEV in the relationship, the results show an inverse relationship. Therefore, the introduction of long-term debt into the CS of the Nigerian non-financial listed firms moderates the relationship significantly. This further suggests that increased ED equity holdings would provide effective monitoring of selfish managerial interest that reduces earnings manipulations. This interaction would further provide positive market reactions towards the companies on the quality of the financial report. Therefore, the outcome of these results is in support of the study's hypothesis (H4c) that leverage moderates the relationship between managerial share ownership and FRQ in the Nigerian non-financial listed firms'. Hence, H4c is supported/accepted.

### 6.14.3 Moderating Effect of Leverage on the Relationship Between Board Gender Diversity and Earnings Management

Table 6.10 presents the results of interaction model (Model 2). It turns out from the multivariate regression model that an interaction between leverage and board gender diversity appears negative but statistically significant at conventional level (β= -0.005, t-statistics= -2.180, *p*=0.014). This indicates that on average, a unit increase in the proportion of women on the board of Nigerian listed non-financial companies would lead to a corresponding decrease in the use of discretionary accruals by a factor of 0.005. It further suggests that the presence of women on Nigerian corporate boards helps in curbing managerial self-interest, thereby enhancing the credibility of the financial report (FRQ) of the firms.

Consequently, the relationship between BGD and EM failed to mitigate EM practices. The exception occurs when long-term debt facilities are injected into the CS of the Nigerian non-financial listed firms, where the presence of women would be able to monitor significantly and control the EM practices. Thus, this study provides evidence that LEV moderates the relationship between BGD and FRQ of the Nigerian non-financial listed firms. Further, suggesting that women could be motivated to exercise their monitoring role which may likely reduce EM practices especially when long-term debt is introduced into the CS of the Nigerian non-financial listed firms. Besides, the outcome of this study is in support of hypothesis H4a of the study. As such, H4a is supported.

#### 6.14.4 Moderating Effect of Leverage on the Relationship between Board Independence and Earnings Management

Table 6.10 shows the results interaction (Model 2) which are provided in the multivariate regression model that an interaction between leverage and board independence appears positive but statistically insignificant at conventional level (β=0.002; *t*-statistics 0.420; *p*-value 0.337). It indicates that on the average, a percentage increase of NED would lead to a corresponding increase in the use of DA by a factor of 0.002. It further indicates that an independent board is not sufficient in constraining EM practices even when leverage (long-term debt) is injected into the CS of the Nigerian non-financial listed firms. Hence, the relationship between BIND and EM practices is positive and statistically not significant, which is in contrast to the study's prediction.

Consequently, the introduction of the moderating variable (LEV) proxy by long-term debt weakens the strength of association between BIND and EM in Model 1. Furthermore, the ratio of INED on the corporate board, despite their vast experience, integrity, credibility and reputation could not provide the desired monitoring and control of the entrenched managerial practices. The outcome of this study provides evidence of BIND failure to provide such monitoring ability in curtailing EM practices. Thus, the result did not support the hypothesis (H4b) that leverage moderates the relationship between BIND and FRQ in the Nigerian non-financial listed firms between 2010 and 2014. Therefore, H4b is not supported. However, the result might be influenced by the ratio of NED on the public companies boards in Nigeria, contrary to Section 4.3 of the NGSEC CCG (2011) that provides for the composition of the boards to consist of majority NED with at least one independent director. As a result, the result could not provide the required monitoring and control mechanisms in minimising earnings management practices. That leads to low-quality earnings and a decrease in financial reporting quality.



Furthermore, the expected independence of thought and opinions might also be jeopardised due to the involvement of ED in the selection and appointment of NED on the board. Furthermore, a lack of specified NED's tenure (Sec. 19.2, SEC, CCG, 2011) on boards creates familiarity with executive and management staff that limits their ability to monitor and control self-serving managerial interests. As such, creditors' monitoring ability would contribute little in curtailing EM practices, and perhaps that may affect debt repayment schedules negatively as well.

### 6.14.5 Moderating Effect of Leverage on the Relationship Between Audit Committee Financial Expertise and Earnings Management

Table 6.10 presents the results of interaction model (Model 2). It shows from the multivariate regression model that an interaction between LEV and ACFE indicates a negative but statistically insignificant relationship at conventional level (β= -0.003, *t*-statistic = -0.660, *p*-value 0.254). This shows that an increase in the number of financial expertise on the AC would lead to a decrease in EM practices, thus increasing EQ by a factor of 0.003. In that respect, the financial reporting quality of the firms would be enhanced, although ACFE impact of curtailing EM practices is at a lower magnitude. Consequently, the results in Model 1 indicates that the relationship between ACFE and EM is positively significant at 1 percent level.

On the other hand, the interaction effect of LEV on ACFE and FRQ (Model 2) proved otherwise, thus suggesting that ACFE would perform their monitoring role in curbing EM practices when long-term debt is added to the CS of the firms. Nevertheless, a prior study (Marra et al., 2010) also found a negative between ACFE and EM. Conversely, the result is in line with the study's expectation of the moderating effect of LEV on ACFE. Therefore, the study's hypothesis (H5a) that leverage moderates the relationship between ACFE and FRQ is not supported. Hence, H5a is not supported.

### 6.14.6 Moderating Effect of Leverage on the Relationship Between Chief Executive Duality and Earnings Management

Table 6.10 provides the result of interaction model (Model 2), from the multivariate regression model that an interaction between LEV and CEDU appears to be negative but statistically significant at conventional 5 percent significance level (β= -0.009; *t*-statistics= -0.600; *p*-value 0.054). The result suggests that a unit decrease in the joint responsibility of the board chair and CEO (CEDU) would lead to a reduction in the quality of accruals by a factor of 0.009. Further, the result shows the magnitude of the impact of leverage on the association between CEDU and DA of the Nigerian non-financial listed firms. On the other hand (Epps & Ismail, 2009; Iqbal & Srong, 2010; Lin & Hwang, 2010; Mohamad et al., 2012; Abed et al., 2012) supported the findings of this study with evidence that the relationship between CEO duality and EM activities is negative and statistically significant.

However, this study differs with the above-cited studies with the introduction of the moderating variable that provided evidence that with long-term debt, CEDU will provide a more efficient monitoring function. As a consequence, the quality of earnings would improve with strongly improved financial reporting quality of the firms. Furthermore, this study provided additional evidence that when long-term debt is introduced into the company's CS, its impact on the relationship between CEDU and EM would significantly change from income-increasing EM practices to decreasing/curtailing EM practices in the Nigerian non-financial listed firms. Thus, financial reporting quality would strongly improve with strong and influential CEO on board as the chairperson. His experience as the CEO would give him an edge over a part-time chairperson who only participates in the company's activities during board meetings. Therefore, firm strategic policies and directions, as well as monitoring and control of managers, would be more efficient and easier with CEDU. Therefore, the outcome of this study is in support of hypothesis (H4d) that Leverage positively moderates the relationship between the Chief Executive Officer duality and FRQ in the Nigerian non-financial listed firms. Thus, H4d is supported.

## 6.13 Robustness Tests

In support of the findings of this study, robustness tests were conducted. Firstly, the value relevance (price-earnings) model was used to test the informativeness of earnings and market reactions on the selected variables. Secondly, the substitution test where the firm growth (FGR) and return on assets (ROA) are two additional control variables substituted with ACIND and BS variables, in two different multivariate regression models. Thirdly, to test the effectiveness of the SEC Code of CG mechanisms, a pre and post corporate governance Code, 2011 was used to verify its effectiveness in mitigating EM practices in the Nigerian non-financial listed firms.

### 6.15.1 Value Relevance (Price-earnings)

The study employs one of the widely used value relevance models, the price-earnings model to examine the value relevance of earnings during 2010 to 2014. Thus, the study adopts the price-earnings model employed by Ohlson (1995) and Burgstahler and Dichev (1997), where prices are regressed on earnings and the book value of equity. The test was conducted using the same sets of data collected and employed on the accuals quality measure (McNichols, 2002). Nevertheless, this study followed prior studies (Kothari, Leone, & Wasley, 2005; Kraft, Lee, & Lopatta, 2014; Al-Rassas & Kamardin, 2015) that have used the winsorised variables distributions to stabilise the outliers. The extreme values were normalised from original observations at a minimum level of 1% at the top and bottom by winsorising the variables to maintain the original data characteristics, which gives a total sample of 465 for the value relevance test. The value of firm's equity can be expressed as a function of its earnings and book value, thus:

$SP_{it}=\alpha_0+ \beta_0 + \beta_1 BVPS_{it} + \beta_2 EPS_{it} + e_{it}$ ………………………………………(i)

While the regression model is thus:

$SP_{it}= \beta_0 + \beta_1 BVPS_{it} + \beta_2 EPS_{it} +\beta_3 BIND_{it} + \beta_4 BS_{it} + \beta_5 MSOW_{it} + \beta_6 CEDU_{it}+$
$\beta_7 BGD_{it} + \beta_8 ACIND_{it} + \beta_9 ACFE_{it} + \beta_{10} ACSOW_{it}+ e_{it}$……………………(ii)

All other variables as previously defined except for $SP_{it}$, $BVPS_{it}$ and $EPS_{it,}$ where:

$SP_{it}$, = Share price of firm i three months after the financial year t.

$BVPS_{it}$ = Book value per share of firm i at financial year t.

$EPS_{it}$ = Earnings per share of firm i at financial year t.

#### 6.15.1.1 Regression Results

Table 6.11 presents the coefficients of the regression conducted to test the value relevance of the corporate governance mechanisms. The results from the regression of the research variables for the combined period (2010 to 2014) are presented in the second column of the table. The coefficients of the model's basic variables (BVPS and EPS) are positive and significant at 1%. On the corporate governance mechanisms, the coefficient of the board independence was negative (-2.0599) and significant at 1%. This implies that the board independence has a negative value relevance in the Nigerian capital market. The possible reason for this might be related to the definition and proportion of independent directors required on the board by the Nigerian code of corporate governance, 2011.

The coefficient of managerial ownership was negative (-0.4678) and significant at 5%. This implies that capital market participants are of the view that managerial ownership triggers the level of insider dealings in a firm. Therefore, they discount the value of those firms with the managerial ownership. The coefficient of the board size was positive (0.0729) and significant at 5%. This reveals that capital market values the number of persons on the corporate board of non-financial companies. This further indicates a good signal that the higher the size of the board, the experienced, knowledgeable and skillful members it composed, thus, it is considered value relevant by the market participant. As expected, the coefficient of the audit committee independence was positive (0.8883) and significant at 5%. This indicates that the appointment of independent director into audit committee is value relevant. This is because, the more the independent directors on the audit committee, the higher the objectivity in preventing and curbing fraudulent activities in a firm.

The coefficient of the board gender was positive (0.2961) and significant at 5%. This indicates that the appointment of female directors on the board is value relevant. This finding is consistent with previous studies (Srinidhi, Gul, & Tsui, 2011; Ittonen, Peni, & Vahama, 2015; Triana, Miller, & Trzebiatowski, 2014; Barua, Rama, & Sharma, 2010; Obert, 2015) that female directors are more dedicated and more trustworthy in discharging their corporate responsibilities.

Table 6.11
*Value relevance of corporate governance mechanisms*

| Variables | Model 1 | Model 2 | Model 3 |
|---|---|---|---|
| Bvps | 0.079 | 0.030 | 0.092 |
| | (8.18)*** | (2.07)** | (7.20)*** |
| Eps | 0.376 | 0.629 | 0.308 |
| | (11.89)*** | (11.25)*** | (7.90)*** |
| Bind | -2.060 | -2.601 | -1.854 |
| | (3.45)*** | (3.19)*** | (2.26)** |
| Msow | -0.468 | -0.234 | -1.033 |
| | (1.81)* | (0.90) | (1.61) |
| Bs | 0.073 | 0.041 | 0.102 |
| | (2.14)** | (0.94) | (2.05)** |
| Cedu | 0.190 | 0.198 | 0.207 |
| | (0.41) | (0.38) | (0.28) |
| Bgd | 0.296 | 0.086 | 0.374 |
| | (2.02)** | (0.45) | (1.84)* |
| Acind | 0.888 | 0.759 | 0.951 |
| | (1.99)** | (1.53) | (1.29) |
| Acfe | 0.135 | 0.112 | 0.059 |
| | (0.47) | (0.32) | (0.14) |
| Acsow | -0.000 | -0.120 | 0.001 |
| | (0.00) | (0.00) | (0.02) |
| Cons | 0.203 | 1.065 | -0.250 |
| | (0.26) | (1.15) | (0.21) |
| *N* | 465 | 186 | 279 |

Robust standard errors in parentheses *** p<0.01, ** p<0.05, * p<0.1. Significant at one-tailed
The dependent variable SP is share price, independent variables are: BVPS is book value per share, EPS is earnings per share, BIND is board independence, CEDU is chief executive officer duality, MSOW is executive directors shares ownership, BS is the board size, BGD is the percentage of female directors. ACFE is the audit committee financial expertise, ACIND is audit committee independence, ACSOW is audit committee share ownership.

When the sampled period was portioned into pre-period (2010 to 2011) and post-period Code (2013 to 2014) periods, the corporate governance variable exhibits different characteristics and is valued differently by the capital market participants. The results of the regression for the pre-period Code period was presented in the third column of Model 2 (Table 6.11). The coefficients of the model basic variables (BVPS and EPS) are positive and significant at 5% and 1% respectively. Similar to the combined period (Model 1), the coefficient of the board independence was negative (-2.6017) and significant at 1%. This reveals that before the implementation of the new corporate governance code, the valuation of the board independence was negative. This indicates that the market participants are not comfortable with the degree of independence of non-executive directors on the corporate boards. None of the other corporate governance variables were found to be value relevant before the implementation of new SEC Corporate Governance Code.

The result for the post-period implementation was presented in the fourth column of table 4 Model 3. The coefficients of the model basic variables are positive and significant at 1%. The coefficient of the board independence was negative (-1.8537) and significant at 5%. The result reveals that even after the implementation of the new corporate governance Code, capital market participants have valued the appointment of an independent non-executive director on the board negatively. This implies that there is a call for regulators to review the definition, appointment and the role of independent non-executive directors in managing the affairs of the firms.

The finding also revealed the existence of black box between the intention of the regulators on the board independence and the expectation of the market participants. Thus, this issue needs to be addressed. Before the revised SEC Code in 2011, female representaion on Nigerian corporate boards does not form part of the CG Code requirements, hence resulting in male dominance in the boards. After the implementation of the new corporate governance code, board gender diversity became statistically significant in the post-code implementation regime. The coefficient of the board gender diversity was positive (0.3742) and significant at 5%. This implies that the market values the appointment of females on the corporate board post-revised Code consequent upon the requirement for ensuring diversity of the public listed companies. Similarly, the coefficient of the board size during the new code era was positive (0.1017) and significant at 5%. This indicates that board size is value relevant during the post-implementation period.

Perhaps, one of the plausible reason is the non-restriction to the size of the boards, that allows injection of new expertise, industry experience and skillful board members from across the country. Overall, the revised SEC Code of corporate governance 2011, implemented in Nigeria is more value relevant compared to the SEC 2003 Code. This was evident by the increase in the number of corporate governance mechanisms that are value relevant. In both periods, board independence was having a negative value relevance. However, during the new Code era, the board gender diversity and board size become value relevant. This indicates that the new set of corporate governance variables are more value relevant during the new Code regime.

### 6.15.2 Variables Substitution

Table 6.12 presents the regression result of Model 1 and Model 2 using the variables substitution test. The multivariate regression Model 1 depicts the regression result where the two additional control variables of FGR and ROA were added to the model. The firm's growth was introduced because of its association with sales revenue that is a potential avenue for earnings manipulation. Accordingly, it can tempt managers to present financial information that portrays good firm performance to the shareholders, contrary to the actual performance of the firm. Similarly, ROA gives an idea of exactly how profitable a firm is, and the efficiency of its management in employing its assets to generate earnings. Hence, ROA has a strong correlation with the way earnings are managed and reported.

Therefore, the study considers the two control variables as relevant and important in determining the extent of earnings management practices of the Nigerian non-financial listed firms. Subsequently, to test for the robustness of the results, board size (BS) and audit committee independence (ACIND) were substituted with the two introduced control variables. The results from the Akaike Information Criterion (AIC) test that compared the differences in the samples of the two models and Bayesian information criterion (BIC) that is based on the comparison of models from different samples are used to determine the sensitivity and variable change following the substitution of the variables.

Table 6.12
*Robust Regression Results*

| VARIABLES | Frq (1) | Frq (2) |
|---|---|---|
| *BIND* | 0.0980 | 0.112 |
| | (0.0973) | (0.104) |
| *MSOW* | 0.108** | 0.104* |
| | (0.0543) | (0.0551) |
| *CEDU* | 0.137 | 0.130 |
| | (0.103) | (0.107) |
| *BGD* | -0.0223 | -0.0209 |
| | (0.0314) | (0.0316) |
| *LEV* | 0.0127** | 0.0136** |
| | (0.00650) | (0.00687) |
| *ACSOW* | 0.0429*** | 0.0462*** |
| | (0.0139) | (0.0149) |
| *ACFE* | 0.126* | 0.140** |
| | (0.0668) | (0.0631) |
| *FA* | 0.00596*** | 0.00628*** |
| | (0.00214) | (0.00213) |
| *FS* | 2.389*** | 2.355*** |
| | (0.341) | (0.322) |
| *PRAT* | 0.00117* | 0.00141** |
| | (0.000626) | (0.000566) |
| *FGR* | -0.00751 | |
| | (0.00692) | |
| *ROA* | -0.0156 | |
| | (0.0124) | |
| *ACIND* | | -0.0851* |
| | | (0.0454) |
| *BS* | | -0.00651 |
| | | (0.00463) |
| c.lev#c.acsow | -0.00195* | -0.00220** |
| | (0.00103) | (0.00110) |
| c.lev#c.msow | 0.000211 | 0.000298* |
| | (0.000186) | (0.000178) |
| c.lev#c.bgd | -0.00414** | -0.00483** |
| | (0.00204) | (0.00222) |
| c.lev#c.bind | 0.00296 | 0.00187 |
| | (0.00452) | (0.00444) |
| 1.acfe#c.lev | -0.00324 | -0.00305 |
| | (0.00579) | (0.00460) |
| 1.cedu#c.lev | -0.00980* | -0.00935 |
| | (0.00552) | (0.00584) |
| Constant | -4.681*** | -4.582*** |
| | (0.677) | (0.675) |
| Observations | 505 | 505 |
| Number of code | 101 | 101 |

Robust standard errors in parentheses *** p<0.01, ** p<0.05, * p<0.1. Significant at one-tailed The dependent variable is financial reporting quality, BIND is board independence, CEDU is chief executive officer duality, MSOW is directors shares ownership, BS is the board size, BGD is the board gender diversity. ACFE is the audit committee financial expertise, ACIND is audit committee independence, ACSOW is audit committee share ownership, LEV is the interaction effect of leverage (long-term debt), FS is firm size, FA is firm age, PRAT is the profitability, LEV*ACSOW is the interaction effect of leverage in audit committee share ownership, LEV*MSOW is the interaction effect of leverage in managerial share ownership, LEV*BGD is the interaction effect of leverage in board gender diversity, LEV*BIND is the interaction effect of leverage in board independence, LEV*ACFE is the interaction effect of leverage in audit committee financial expertise, LEV*CEDU is the interaction effect of leverage in chief executive officer duality

In Table 6.13, Model 1 shows regression model with the additional control variables (FGR and ROA) and provides AIC=328.523 and BIC= 408.752. Whereas, Model 2 indicates the main model of the study and provides AIC=326.27 and BIC= 406.54. Thus, the model that jointly provides the lowest AIC and BIC is considered to be the best and most desirable model. Therefore, Model 2 has the lowest which is not significantly different from the main regression model in Table 6.10. Thus, the test justifies the robustness of the results obtained in the main regression model of the study in Table 6.10.

Table 6.13
*Akaike's and Bayesian Information Criterion*

| **Model** | **Obs** | **Ll (null)** | **Ll (model)** | **df** | **AIC** | **BIC** |
|---|---|---|---|---|---|---|
| 1 | 505 | -255.8872 | -145.2613 | 19 | 328.5227 | 408.7516 |
| 2 | 505 | -255.895 | -144.135 | 19 | 326.270 | 406.536 |

Accordingly, Table 6.13 presents the multivariate regression models. Model 1 presents the model that is composed of control variables FRG and ROA which are substituted with ACIND and BS. The results indicate that BGD is negative but not statistically significant in both Model 1 and 2. However, the interaction effect of LEV on BGD remains negative and statistically significant at 5 percent level. Thus, BGD remains an effective mechanism of curbing EM practices.

This result appears to be the same as in the main regression model in Table 6.10. Moreover, the robustness test provides a positive but statistical insignificant association between LEV and MSOW. It signifies a change in the monitoring role of ED with equity holdings in the non-financial Nigerian listed firms. The result is in contrast with the main findings in Table 6.10 that suggests a negative association between LEV and MSOW in monitoring managerial entrenchments.

Although FGR and ROA appear negative but statistically insignificant, it thus suggests that they have a positive impact on the firms' EQ and are effective in curtailing EM practices which further contributes to providing quality financial reports of the Nigerian non-financial listed firms. Thus, findings from the two approaches appear qualitatively similar to the main regression results in Table 6.10. On the whole, the robustness tests demonstrate that the main regression results are robust and not responsive to the variables change technique.

### 6.15.3 Corporate Governance Mechanisms Impact on Pre and Post-CG Code 2011

Table 6.14 presents a comparison between the earnings management (proxy) of FRQ and IVs of the study in the pre and post-CCG 2011 period. The analytical comparison is aimed at examining whether the revised CCG 2011 has a significant impact on CG practices in enhancing FRQ of the non-financial listed firms in Nigeria compared with the CG code 2003. Further, the analyses would indicate the consistency of the results of the two periods (pre and post 2011).

Table 6.14 shows that the pre-period $R^2$ is approximately 32 percent, while the post-period $R^2$ is approximately 33 percent, providing evidence of an increase in the strength of the model in the CG post code 2011 period that fully explains the relationship between IVs and dependent variable in the earnings management model. However, both models are well fitted by the significance at one percent level. However, the regression results show that ACSOW, CEDU, BIND are positively but statistically insignificantly associated with earnings management during the pre-NGSEC 2011 CG Code.

Table 6.14
*Regression Result of Pre and Post CCG 2011*

| | **Pre-Code 2011** | | | **Post-Code 2011** | | |
|---|---|---|---|---|---|---|
| **Variables** | **Coeff.** | **t-stat** | ***p*-value** | **Coeff.** | **t-stat** | ***p*-value** |
| *BIND* | 0.286 | 1.11 | 0.133 | 0.137 | 0.62 | 0.269 |
| *MSOW* | 0.105 | 1.88 | 0.031** | 0.127 | 0.78 | 0.219 |
| *BS* | -0.004 | -0.42 | 0.339 | -0.018 | -1.74 | 0.041** |
| *CEDU* | 0.119 | 0.87 | 0.193 | 0.265 | 1.74 | 0.041** |
| *BGD* | -0.051 | -1.00 | 0.160 | -0.076 | -1.19 | 0.118 |
| *LEV* | 0.001 | 1.51 | 0.067* | 0.002 | 0.73 | 0.233 |
| *ACIND* | -0.240 | -2.61 | 0.005*** | -0.185 | -2.15 | 0.017** |
| *ACFE* | 0.182 | 3.17 | 0.001*** | 0.231 | 4.30 | 0.000*** |
| *ACSOW* | 0.053 | 0.76 | 0.224 | 0.032 | 5.34 | 0.000*** |
| *FA* | 0.007 | 3.39 | 0.000*** | 0.005 | 2.16 | 0.016** |
| *FS* | 1.899 | 7.37 | 0.000*** | 2.159 | 9.38 | 0.000*** |
| *PRAT* | -0.000 | -0.11 | 0.460 | -0.019 | -0.31 | 0.380 |
| Group observations | 202 | | | 202 | | |
| R-Squared | 0.32 | | | 0.33 | | |
| Sig. | 0.000*** | | | 0.000*** | | |

***, ** and * indicate a significant level at 1%, 5%, and 10% respectively**.** Significant at one-tailed. The dependent variable is financial reporting quality, BIND is board independence, CEDU is chief executive officer duality, MSOW is directors shares ownership, BS is the board size, and BGD is the board gender diversity. ACFE is the audit committee financial expertise, ACIND is audit committee independence, ACSOW is audit committee share ownership, LEV is the interaction effect of leverage (long-term debt), FS is firm size, FA is firm age, PRAT is the profitability.

Similarly, LEV, MSOW, BIND are positively but statistically insignificantly related to EM in the post-period. However, LEV, ACFE, FA, FS, and MSOW are positive and significantly related to EM at 10 percent, 1 percent, 1 percent, 1 percent, and 5 percent respectively, during the pre-CCG 2011 period, thereby enhancing EM practices as well reducing the quality of financial reporting of the listed firms.

Accordingly, results in Table 5.14 indicate that ACSOW, CEDU and ACFE are statistically positive and significant at the conventional level, post-NSEC CG Code 2011. Meanwhile, the control variables FA and FS are both positive and significantly related with EM. Conversely, ACIND appears negative and significant before and after the Revised CCG 2011, signifying an inverse association with earnings management. This suggests that the changes in the revised code impacted positively on the EQ of the non-financial listed firms in Nigeria. Hereafter, earnings management practices in the non-financial listed firms are on the decrease. Therefore, quality of earnings is higher in the post-period SEC, CCG, 2011 than in the pre-period SEC, CCG, 2011. In line with institutional theory, Nigerian SEC Code of CG 2011 impacted positively in providing effective mechanisms for monitoring and control of earnings management practices in Nigerian non-financial listed firms.

### 6.15.4 Test With and Without Outlier

In testing the robustness of the study results, the outliers identified are considered in checking their sensitivity to the outcome of the main regression results. Thus, Table 5.14 presents the comparative analysis between the OLS regression results with and without outliers.

Table 6.15
*Comparing Regression Results With and Without Outlier*

| **Variables** | **Outlier** | **Normal** | **Outlierobust** | **Normalrob** |
|---|---|---|---|---|
| *BIND* | 0.374*** | 0.312** | 0.374*** | 0.312** |
| | (0.101) | (0.126) | (0.0951) | (0.136) |
| *MSOW* | 0.157*** | 0.126** | 0.157*** | 0.126*** |
| | (0.0580) | (0.0565) | (0.0467) | (0.0411) |
| *BS* | -0.0120** | -0.0101** | -0.0120** | -0.0101** |
| | (0.00584) | (0.00729) | (0.00569) | (0.00619) |
| *CEDU* | 0.201** | 0.197* | 0.201** | 0.197** |
| | (0.0815) | (0.102) | (0.0868) | (0.0912) |
| *BGD* | -0.0209* | -0.0538** | -0.0209* | -0.0538** |
| | (0.0248) | (0.0311) | (0.0239) | (0.0312) |
| *LEV* | 0.00149* | 0.000798** | 0.00149* | 0.000798** |
| | (0.00143) | (0.000336) | (0.000996) | (0.000502) |
| *ACIND* | -0.245*** | -0.224** | -0.245*** | -0.224*** |
| | (0.0822) | (0.0998) | (0.0429) | (0.0531) |
| *ACFE* | 0.203*** | 0.203*** | 0.203*** | 0.203*** |
| | (0.0497) | (0.0627) | (0.0324) | (0.0355) |
| *ACSOW* | 0.0287*** | 0.0311*** | 0.0287*** | 0.0311*** |
| | (0.00880) | (0.0111) | (0.00461) | (0.00566) |
| *FA* | 0.00722*** | 0.00660*** | 0.00722*** | 0.00660*** |
| | (0.000980) | (0.00122) | (0.00104) | (0.00129) |
| *FS* | 2.033*** | 2.007*** | 2.033*** | 2.007*** |
| | (0.127) | (0.144) | (0.130) | (0.151) |
| *PRAT* | 0.000530 | -7.95e-05 | 0.000530 | -7.95e-05 |
| | (0.00318) | (0.00101) | (0.000393) | (0.000800) |
| *Constant* | -4.037*** | -3.940*** | -4.037*** | -3.940*** |
| | (0.278) | (0.316) | (0.287) | (0.334) |
| *Observations* | 497 | 505 | 497 | 505 |
| *R-squared* | 0.440 | 0.338 | 0.440 | 0.338 |

Note: Significant levels at ***1% **5% & *10% respectively. Significant at one-tailed. The dependent variable is financial reporting quality, BIND is board independence, CEDU is chief executive officer duality, MSOW is directors shares ownership, BS is the board size, and BGD is the board gender diversity. ACFE is the audit committee financial expertise, ACIND is audit committee independence, ACSOW is audit committee share ownership, LEV is the interaction effect of leverage (long-term debt), FS is firm size, FA is firm age, PRAT is the profitability.

The result of CEDU both in normal and outlier results provide comparable results. The differences examined in BS provides statistical significance at 5% level with outlier, while the insignificant result was observed under robust normal regression result. However, BGD was significant in the result with outlier at 10% level but stronger at 5% in the robust normal result. Therefore, the presence of outliers in the observations did not change the overall results of the study. Thus, this signifies the robustness of the main regression results of this study.

### 6.16 Summary of the Chapter

Chapter Five presents the study's industrial distribution as well as the descriptive statistics, correlation matrix analyses, in addition to the diagnostic tests. The diagnostic tests, checked for Multicollinearity, Heteroscedasticity, Normality (skewness and kurtosis) using both Kernel density normal distribution and standardised normal probability P-Plot distribution. Furthermore, the presence of outliers in the data was also tested to identify possible distortion in the study observations, which may result to non-normality of the data. In doing that, the study used regression technique and outlier plot to portray visual identification of the outlier. Moreover, Chow tests, tests for serial correlation and Hausman test for model selection were conducted and appropriate criterion adopted for the study. The chapter also presented the results that followed with extensive discussion.

There upon, out of the sixteen hypotheses set for the research, seven are supported, while the remaining nine are not supported. Finally, the summary of the chapter is presented.

# CHAPTER SEVEN
# CONCLUSION AND RECOMMENDATION

## 7.1 Introduction

This chapter is set to recap the previous chapters one to five and provide a summary of the research objectives, hypotheses development, and methodological approach towards achieving the research objectives. The summary of results, findings, conclusions, contributions of the study and outline of the study limitations are presented. Finally, the chapter presents the recommendations for future research in broadening the frontiers of knowledge in the study area. Consequently, the conclusions of the thesis are presented.

## 7.2 Summary

The main objective of this study is to examine the relationships between corporate governance and financial reporting quality (EM) of Nigerian non-financial listed firms. Other objectives include to: (i) examine the relationship between board characteristics; (ii) examine the effect of the audit committee characteristics in providing a quality financial report in Nigerian non-financial listed firms; (iii) examine the relationship between leverage and financial reporting quality of Nigerian listed firms; (iv) examine the moderating effect of leverage on the relationship between board characteristics and FRQ of Nigerian listed firms; (v) examine the moderating effect of leverage on the relationships between AC and FRQ of Nigerian non-financial listed firms; and (vi) determine the effect of SEC Code of corporate governance (2011) on the quality of financial reporting of Nigerian non-financial listed firms. Similar to prior studies, a significant evidence emerges from the current study with mixed results on the IVs. The summary results for the entire sample is reported in Table 7.1. Besides, the inconsistent results from prior studies on the relationships between managerial share ownership, board independence, board gender diversity, chief executive officer duality, audit committee share ownership and audit committee financial expertise and earnings management motivated the introduction of long-term debt proxy by leverage as an interacting variable. Accordingly, the summary results show that the hypothesised relationship between MSOW, BS, CEDU, LEV and ACIND and earnings management are supported.

Correspondingly, the relationships between board independence, board gender diversity, audit committee financial expertise, audit committee share ownership, and the moderating effect of leverage on board independence and audit committee financial expertise and earnings management are not supported in the study. Nevertheless, the moderating effect of leverage on the relationship between MSOW; ACSOW; CEDU, BGD and the impact on the EM of Nigerian non-financial listed firms are all supported in the study.

Table 7.1
*Summary results of tested hypotheses*

| | Hypothesis | Expected sign | Decisions |
|---|---|---|---|
| H1a | There is a negative relationship between presence of independent non-executive directors and earnings management of Nigerian listed firms; | - | Not supported |
| H1b | There is a positive relationship between managerial share ownership and earnings management of Nigerian listed firms; | + | supported |
| H1c | There is a relationship between board size and earnings management of Nigerian listed firms; | +/- | Supported |
| H1d | There is a relationship between chief executive officer duality and earnings management. | +/- | supported |
| H1e | There is a relationship between board gender diversity and earnings management. | +/- | Not supported |
| H2a | There is a significant negative relationship between audit committee independence and earnings management. | - | supported |
| H2b | There is a negative relationship between AC member financial expertise and earnings management. | - | Not supported |
| H2c | There is a significant negative relationship between AC share ownership and earnings management. | - | Not supported |
| H3a | There is a significant positive relationship between leverage and earnings management. | + | supported |
| H4a | Leverage moderates the relationship between board gender diversity and earnings management. | - | Supported |
| H4b | Leverage moderates the relationship between board independence and earnings management | - | Not supported |
| H4c | Leverage moderates the relationship between managerial share ownership and earnings management. | - | Supported |
| H4d | Leverage moderates the relationship between the Chief Executive Officer Duality and earnings management. | - | Supported |
| H5a | Leverage moderates the relationship between AC financial expertise earnings management | - | Not Supported |
| H5b | Leverage moderates the relationship between AC share ownership and earnings management | - | Supported |

| | | | |
|---|---|---|---|
| H6 | Nigerian Security & Exchange Commission code of corporate governance 2011 has positive and significantly improved the quality of financial reporting in the Nigerian non-financial listed firms. | - | Supported |

Besides, robustness checks were conducted using value relevance (price-earnings) model and variables substitution technique to test the robustness of the study's main multivariate regression results. Similarly, pre and post code of corporate governance 2011, were used to check the magnitude of earnings management between the periods. Thus, the result indicates that, the quality of earnings is greater in the post-period SEC, CCG, 2011 than in the pre-period SEC, CCG, 2011. Further, the robustness test reveals that the revised SEC Code of corporate governance 2011, implemented in Nigeria is more value relevant compared to the SEC 2003 Code. This was evident by the increase in the number of corporate governance mechanisms that are value relevant.



Again, a robustness check using the presence of an outlier in the observations was equally employed. Thus, the presence of an outlier in the observations posed no threat to the validity of the data and did not distort the outcome of the main regression results. On the whole, Table 7.1 presents a summary of the sixteen tested hypotheses; with ten supported and six unsupported.

## 7.3 Conclusion

The study investigates the role of the board and audit committee monitoring mechanisms and long-term debt (leverage) on earnings management in Nigerian non-financial listed firms. Further, the study provides evidence that the role of the board of directors to enhance the financial reporting quality is affected by the leverage, which suggests that these monitoring mechanisms are important in the Nigerian environment. However, not all elements measured in relation to the board of directors and audit committee monitoring are significant as the study finds no evidence that board gender diversity, CEO duality, audit share ownership and audit committee financial expertise are not significantly related to mitigating earnings management in the Nigerian non-financial listed firms.

In line with the agency theory of separation of power between principal and agent, derived measures on supervision and monitoring of agent activities are set to reduce asymmetric information and minimise agency costs. As a result, a code of corporate governance emerged to provide a guide to best practices for corporate bodies. The significant role of the leverage as a moderator for the relationship between the earnings management suggests that corporate governance mechanisms acknowledged in the Western World as depicting best practice, are not appropriate for the business environment in the emerging economy (Nigeria). Moreover, these findings demonstrate that because of the different institutional settings, different countries display different governance structures. Thus, simply mimicking the styles for corporate governance structures from the UK and US in emerging economies like Nigeria should be reviewed. Consequently, the SEC code of CG 2003, was reviewed in 2011 with changes aimed at making it more effective. The review also provided for board composition, CEO duality, the disclosure of directors' equity ownership, the formation of board committees, risk committee, external auditor tenure, whistleblowing and the enlarged audit committee size from three to six. Thus, the result of two equal sample t-test indicates that SEC Code of CG 2011, has significantly improved corporate governance practices in the Nigerian non-financial listed firms'. A significant proportion of literature on AC seems to have a consensus that AC with greater independence and accounting/financial expertise have significantly positive impact on financial reporting quality. Moreover, market reaction to AC issues documents that investors appreciate presence of AC and attract positive response when members possess relevant accounting or financial expertise. However, from the findings of this study, AC independence is found to be negatively associated with earnings management, hence, significantly impacting on financial reporting quality of Nigerian non-financial listed firms.



The result is in support of the resource dependency theory view, that the skills and expertise exhibited by outside directors would improve the monitoring roles of the board and sub-committees of the board. Similary, the agency theory view that audit committees are viewed as a monitoring device to decrease agency costs and resolve the information asymmetry (Tengamnuay & Stapleton, 2009), by way of monitoring managers' behaviour. This is in contrast with the previous studies that ACSOW makes members feel obliged and bonded because of their equity holdings, to monitor and control managers' opportunistic behaviour. The findings of this study proved contrary where ACSOW is positively associated with EM, as such, has weak monitoring ability in curtailing EM practices. Accordingly, agency theory postulates that financial reporting quality is related to AC that is composed of accounting or financial experts. Their expertise would guide them, provide more robust and higher quality financial information. This study's finding reveals that ACFE is not strong enough in providing effective monitoring function due to its positive and significant association with EM which lowers the eanings quality of the non-financial listed firms in Nigeria. However, both ACSOW and ACFE would provide strong oversight role in curtailing the use of DA that might lead to earnings manipulations only when they interact with leverage. Debt comes along with monitoring by the creditors. Therefore, the findings reveal that the interaction between LEV and ACSOW are statistically significant in mitigating EM practices thereby enhancing firms' financial reporting quality.



## 7.4 Implications of the Study

This research contributes to the existing literature on the agency theory, resource dependence and stewardship theory. In particular, the board of directors' characteristics of board size; board independence; board gender diversity; managerial share ownerships and CEO duality. Similarly, the audit committee characteristics of audit committee share ownership; audit committee financial expertise; and audit committee independence; and the moderation of long-term debt (leverage), tested to mitigate earnings management and enhance financial reporting quality. Further, the moderating effect of leverage on audit committee shares ownership, managerial share ownership, board gender diversity, and CEO duality provided evidence of positive impact on financial reporting quality in the Nigerian non-financial listed companies. However, the study has implications for policy makers and regulatory bodies in addition to theoretical implications.

### 7.4.1 Theoretical Implication

The conclusion of this study has many theoretical implications. Although some literature addressed the issue of corporate governance using agency theory, most of these studies concentrated on developed countries, which have different environment and regulatory settings from less developed countries. This study has added to the understanding of agency theory, stewardship and resource dependency theories in a less developed country (Nigeria) where its corporate governance framework and practice are developing, hence are associated with complex agency relationships.



Thus, the study provides an examination of corporate governance practices in the Nigerian non-financial listed firms which were hitherto understudied. First, corporate governance including audit committee monitoring and controls is predicted by the agency theory to align the interests of managers and shareholders, thereby reducing the information asymmetry and minimise agency cost of monitoring. The asymmetric information contributes to moral hazard and adverse selection issues. Thus, agents' self-seeking interests might be in the form of earnings manipulations aimed at misleading stakeholders about the actual company earnings and performance. It might also be aimed at influencing the contractual results of the company which is based on the financial report or accounting numbers.

With regards to corporate governance variables, this study extends the existing literature that an increase in board size and audit committee independence have significant negative effect on earnings management. The result is in support of agency theory perspective that the size of the board matters in monitoring managers entrenchment. It argues that larger boards comprise of persons with diverse interests, experience, and skills which can contribute more to its effectiveness. In the same vein, resource dependency theory maintains that larger boards signify involvement of more resourceful members from environmentally diverse settings, that would provide diverse opinions, contribute to wider deliberations resulting in a better decision that would enhance its performance and monitoring functions.

On the other hand, the results of MSOW, BGD, and BIND governance variables failed to mitigate earnings management practices. Thus, they cannot strongly support agency theory of minimising information asymmetry and agency cost, thereby increasing moral hazard. Consequently, RD theory argues that BDG and BIND are expected to provide the board of directors with more human capital sourced from outside. It is therefore anticipated that their richness of expertise and technical knowledge would come to bear on the firm's monitoring roles, thereby contributing towards an effective financial reporting process. As such, when tested in different settings or outcomes, the results might provide significant results. Accordingly, the result on MSOW did not support the agency theory that allowing managers to own part of equity holding of a company would align their interest as agents with that of the shareholders. The aim is to minimise the moral hazard through alignment of interests. This sounds unique and is a departure from most of the studies on MSOW that reported a negative relationship with earnings management due to their stake in the firm.

On the whole, the results of these governance variables failed to provide sufficient support for agency theory in mitigating agency conflict and reduce monitoring cost. Further, there is no evidence in Nigerian non-financial listed firms suggesting that outside directors' independent opinion, a better sense of judgement, skills and knowledge lead to mitigating earnings management advocated by the resource dependency theory. Perhaps, these might be related to the definition, proportion and appointment of non-executive directors required on the board by the Nigerian code of corporate governance.

Thirdly, previous literature suggests that some audit committee characteristics provide effective monitoring function that improves the financial reporting process. Consequently, this study found support for agency theory and RD theory on audit committee independence's (ACIND) ability to provide monitoring role that leads to minimising agency cost by curtailing earnings management practices. The fact that the board sourced its members from a pool of experts and industrially experienced people. The board selects three out of the NED on the board with entirely different monitoring responsibilities, permitting them to be more focused than their role on the board. Fourthly, there is evidence of mixed findings on the relationship between ACFE and ACSOW and earnings management, especially in the Western and developed economies.

The results of the study indicate that audit committee financial expertise and audit committee share ownership do not provide enough monitoring and control of managers' opportunistic tendencies as suggested by the agency theory. It further established that they were not associated with enhanced earnings quality significantly. This suggests that, when at least a member who has financial literacy on the audit committee is adjudged to provide enough expertise in monitoring managers' activities, it would not significantly improve the quality of the financial report. Similarly, the findings that when an audit committee member owns a proportional amount of firm's equity, he will exert more effort in his monitoring role, that leads to decreased moral hazard. As a result, it will reduce asymmetric information between the agents and principals, which is not aligned with the agency theory perspective.

However, this study brings to light, that when some corporate governance variables including some audit committee characteristics interact with long-term debt (leverage), the results provide new insight into the monitoring role of leverage in mitigating earnings management practices in the Nigerian non-financial listed firms. Therefore, the ability of bondholders to provide long-term financing to companies, demands for monitoring how the funds are managed through the combined efforts of executive directors share ownership; audit committee share ownership; female directors on the board; and chief executive officer duality. Following moderating role of leverage on CEO duality further support and advance the stewardship theory perspective of viewing CEO as an honest and trustworthy agent, who align his personal objective with the firm objectives and values. As such, would do all things to avoid pursuing his personal interest. Hence, the result provides support allowing CEO to serve as the Chair of the board would help in mitigating earnings management practices. Therefore, the outcome of this study suggests that highly levered firms with CEO duality would enhance the earnings quality of those firm which lends support to stewardship theory.

Another interesting findings of this study is the ability of the moderating variable (LEV) intraction with MSOW, ACSOW, BGD that provide significant impact in mitigating earnings management practices and improve quality of earnings. It therefore, suggest that BGD would have been a strong monitor if more female directors with requisite experience and qualification are on corporate boards of the Nigerian non-financial companies. Thus, support the agency theory's perspective, that, to reduce asymmetric information that leads to adverse selection particular by bondholders is to allow managers own equity holdings through their interaction with leverage. Similarly, ACSOW relates to audit committee member shareholdings that is argued to have strong association with their performance in ensuring a credible financial reporting process. The finding of this study indicates that ACSOW ability to mitigate earnings management strongly depends on its interaction with leverage injected into the financial structure of the Nigerian non-financial listed firms. Thus, the study contributes to the agency theory, which mentions that aligning interest between audit committee member and the principal through part ownership of a firm's equity alone may not cause a decrease in asymmetric information. For the ACSOW to mitigate earnings mangement, there has to be an interaction with leverage.

### 7.4.2 Policy and Practical Implications

The findings of the study provides evidence of the significance of corporate governance mechanisms in mitigating earnings management practices and enhancing financial reporting quality. Thus, the study would be of eminent benefit to regulators, shareholders, creditors, potential investors, researchers and the general public. It provides a wide perspective in understanding techniques that help in mitigating earnings management practice and how financial reporting quality could be improved.

The Nigerian SEC and Financial Reporting Council through regulatory changes should consider making changes in the governance Codes that would strenghthen the function of the audit committee. Such provisison should be regulated by setting a limit to the amount of member share holdings, since allowing audit committee members to possess a proportion of equity holdings along with debt holders in the firm would significantly reduce the moral hazard and enhance their monitoring role. Similarly, the change should make provision for the three shareholders representatives on the audit committee to own and disclose their shareholdings in the annual reports of the companies. Presently, the regulatory bodies do not make any specific provision for a proportional quota of female directors on corporate boards in the Nigerian non-financial listed firms. Thus, this limits their monitoring role in mitigating earnings management practices.



The findings of this study indicate that female directors are good human capital resources that could provide a monitoring role and enhance public confidence of listed firms. Insignificant proportion of female directors on boards of non-financial companies in Nigeria contributed to their limited monitoring performance. Hence, there is a need to review the current Code of corporate governance that would ensure a quota for females on the board of Nigerian companies is set. In setting such quota, factors such as industry experience, competency, financial and accounting expertise should be considered. The agency theory postulates that a more independent board of directors is more efficient in providing monitoring functions and reducing agency costs. However, the regulatory bodies, should revisit and review provisions of selection committees of the corporate boards to ensure competent member with vast experience, requisite industry skills and sound educational background are appointed. By doing so, it would greatly improve their monitoring role, enhance the quality of companies' earnings and improve the financial market confidence on the financial information.

Furthermore, considering the value relevance result on BIND, it demands the attention of the regulators to review the definition, appointment and the role of independent non-executive directors in managing the affairs of the firms. The finding indicates the presence of a black box between the intention of the regulators on the BIND and the expectation of the market participants. Additionally, there is the need for the regulators to consider a policy that sets the maximum amount of equity holdings of executive directors on the corporate boards of Nigerian companies.

According to Yeo, Tan, Ho, and Chen (2002), managers' opportunistic behaviour decreases when their equity ownership was less or equal to 25%. Thus, any increase in the managerial ownership beyond 25%, results in a positive increase in aggressive income-increasing DA. In support of Yeo et al. (2002), this study's findings justify the significant impact of managerial share ownership in increasing earnings management practices in the Nigerian non-financial listed firms. The result changes only in firms with long-term debt. Otherwise, ED's share ownership contributes to managerial manipulation of earnings. The amount or percentage should be provided for executive directors' equity holdings in the company they are serving or nominated to serve. Therefore, controlling executive directors' equity ownership is highly recommended.

Consequently, the requirement for at least a member with financial literacy who can read and understand financial statements to be on audit committees should be revisited. The findings of this study have proven that a financially literate member on the audit committee alone is not capable of providing enough monitoring control of earnings manipulation. The insignificant association between audit committee financial expertise and earnings management is perhaps due to the absence of accounting or financial management expert on the audit committee. Since the audit committee size is six, regulatory bodies should upwardly review the number to three accounting/ financial experts. Doing that would provide enough financial experts to scrutinise and provide efficient oversight functions that would as well mitigate earnings management practices.

In line with agency theory, this study also provides evidence that long-term debt (leverage) is an effective monitoring tool in mitigating earnings management practices. The findings indicate that managerial share ownership, audit committee share ownership, proportion of female directors on the board, and board independence provide effective monitoring function in reducing earnings management only with the interaction of long-term debt in the firms' CS. Thus, the study provides policy makers with valuable information on the importance of long-term debt in monitoring managerial entrenchment tendencies, as well as ensuring an increase in quality earnings and subsequent quality in financial reports, Nigeria non-financial firms need to increase the level of long-term debt in their CS. Further, since leverage proved to have provided a significant and positive impact on quality of earnings. Board composition of Nigerian non-financial listed firms should include bondholders for robust and effective monitoring of managerial entrechment practices.



On the whole, this study makes a contribution to policy makers, regulatory bodies, present and potential investors, bondholders and other stakeholders so that they are well informed on the importance of corporate governance mechanisms in monitoring and control of managers. The revised NGSEC Code of CG 2011 is inadequate in its guidance and improvement of corporate governance as a benchmark for best practices. Hence, there is a need for additional reforms to the code of corporate governance in tune with global best practices. Specific variables contribution in curtailing the use of DA leading to earnings management were found to be inadequate in enhancing quality financial reports of Nigerian non-financial listed firms. Furthermore, the outcome of this study surely provides quality information to stakeholders, investors, in particular creditors who are better informed about board and audit committee characteristics in reducing agency costs and enhancing financial reporting quality of the Nigerian non-financial listed firms.

## 7.5 Limitations of Study

Despite considerable strengths of this research, it has some limitations that need to be specified before the findings of this research are generalised. Firstly, the focus of this research is to the Nigerian non-financial listed firms with about 130 trading on the floor of the NSE. Hence, the study considered the availability of annual reports data for 101 companies. However, the study is constrainted in obtaining relevant financial and governance data from all non-financial listed firms due to the late filing of returns.



Additionally, other related offences sanctioned by SEC (SEC Report 2014 & 2015) limited the number of companies considered for this study. As a result, generalising the implications of this study across all firms need to be considered. Secondly, the research employed the accruals based measure of financial reporting quality which is not the only measure used in other studies. Other measures include (1) time-series, using properties of earnings; (2) qualitative characteristics of FRQ; and (3) income, cash and accruals relations. Other accrual based measurements such as Jones (1991), modified Jones model (1995), Dechow and Dichev (2002) and its variants in capturing prior studies used earnings manipulations. Thus, this suggests the availability of various EQ measurement models.

However, this research employed McNichols (2002) model in measuring the FRQ, which was not adjusted to differentiate between estimation errors based on intentional and unintentional errors. Hence, the need to consider these issues before generalising the outcome of this study. Thirdly, the study relies greatly on the information obtained from the SEC websites, companies' annual reports extracted from the SEC branch office (Kano) including sampled companies websites, which may not provide the actual inner workings of these firms' boards and audit committees in the sampled firms. Fourthly, the study heavily relies on the revised Code of Corporate Governance, 2011 issued by the Nigerian SEC for public companies in Nigeria. Although there are other industry based governance codes in Nigeria, those were not considered in arriving at the findings of this study. Though SEC Code of CG, 2003 was used in computing two paired sampled t-test in the analysis, it was specifically used for the purpose of achieving objective six (6) of this study. While acknowledging these limitations, they provide an opportunity for future research in the study area. Therefore, the limitations do not in any way undermine the importance of the findings and overall strengths of the research.

## 7.6 Further Research

This study highlighted many issues that require further investigations. As such, some suggestions or avenues for further research arising from the limitations highlighted in section 7.5 are as follows: Firstly, this study examined the association between selected corporate governance variables and audit committee characteristics. Consequently, further studies could be carried out to understand the causation effect of the relationship between board and audit committee characteristics and financial reporting quality proxy by AQ which could provide a more robust detection technique. Secondly, this study is restricted to non-financial listed firms between 2010 to 2014.

However, further studies might extend the data collection to all the Nigerian listed firms including the financial institutions, family controlled entities and private companies. The outcome would help to understand if the result from this study as well holds for family controlled and private companies. Secondly, to clearly understand the inner workings of the audit committee in Nigeria, more detailed qualitative and case studies could be carried out. It might involve being present during audit committee meetings and interviewing members of the audit committee individually. Thirdly, leverage measured by long-term debt to total assets was used to moderate the relationships between board characteristics of managerial share ownership, board gender diversity, board independence and CEO duality. Also, leverage moderates the relationships between audit committee share ownership, and audit committee member financial expertise. As a result, further studies may consider moderation of other board and audit committee characteristics. Similarly, the study examined and employed some mechanisms for board and audit committee variables, while the remaining variables were not employed due to the paucity of financial and governance data. As such, they should be explored by future studies. Fourthly, the proportion of female directors on corporate boards of Nigerian non-financial listed firms' positive impact on the financial reporting quality could not be established in this study. However, the findings suggest that the insignificant percentage of female's representation on corporate boards might be one of the plausible reasons why their significant impact on the financial reporting quality could not be established.

On the other hand, non-financial listed firms in Nigeria with long-term debt in the CS could moderate the relationship with female directors on boards and provide a positive and significant monitoring impact in mitigating earnings management practices. Nevertheless, in the absence of leverage, further studies could be carried out to determine whether the proportional increase of female directors on board could enhance the quality of financial reports of the Nigerian listed non-financial firms. Furthermore, female talent should be developed and tilted towards managerial skills from an early stage to achieve better women's representation. It will help to realise better gender diversity in the Nigerian non-financial listed companies. Fifthly, this study is controlled by firm size, firm age and profitability variables. There might be other correlated variables of interest that might affect the quality of the financial report and not considered by this study. Therefore, further studies could examine their effect on the relationship between board and audit committee characteristics.

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THE Nigerian STOCK EXCHANGE

# X – Compliance Report

## X – Compliance Report

Report Date: 28/09/2012

## EARLY FILERS

Quoted companies on The Exchange are required to file their financial statements on a timely basis in accordance with Appendix 111 of the Listing Rules. The Exchange has identified the companies listed on Schedule One as companies that have exceeded the minimum listing standards in terms of timely disclosure of their Audited Annual financial performance.
The Exchange is extremely proud of these companies and will continue to show case quoted companies that imbibe high corporate governance practices.



### SCHEDULE ONE

| EARLY FILERS 2012 | | | | |
|---|---|---|---|---|
| S/N | NAME OF COMPANY | YEAR END | DUE DATE | FILED DATE |
| 1 | Nestle Nigeria Plc. | Dec-2011 | 31 March -2012 | 21 Feb-2012 |
| 2 | Nigeria Breweries Plc. | Dec-2011 | 31 March-2012 | 6 March-2012 |
| 3 | Court Ville Business Solutions Plc. | Dec-2011 | 31 March-2012 | 7 March-2012 |
| 4 | Zenith Bank Plc. | Dec-2011 | 31 March-2012 | 8 March-2012 |
| 5 | Glaxo Smithline Consumer Nigeria Plc. | Dec-2011 | 31 March-2012 | 14 March-2012 |
| 6 | Okomu Oil Palm Plc. | Dec-2011 | 31 March-2012 | 16 March-2012 |
| 7 | Access Bank Plc. | Dec-2011 | 31 March-2012 | 16 March-2012 |
| 8 | Guaranty Trust Bank Plc. | Dec-2011 | 31 March-2012 | 16 March-2012 |
| 9 | First City Monument Plc. | Dece-2011 | 31 March-2012 | 19 March-2012 |
| 10 | First Aluminum Nigeria Plc. | Dec-2011 | 31 March-2012 | 20 March-2012 |
| 11 | Paints & Coatings Manufacturing Plc. | Dec-2011 | 31 March-2012 | 20 March-2012 |
| 12 | Larfarge Cement Wapco Nigeria Plc. | Dec-2011 | 31 March-2012 | 22 March-2012 |
| 13 | Julius Berger Nigeria Plc. | Dec-2011 | 31 March-2012 | 23 March-2012 |
| 14 | PZ Industries Plc. | May -2012 | 31 August -2012 | 31 July-2012 |
| 15 | Guinness Nigeria Plc. | June-2012 | 30 Sept-2012 | 17 Sept-2012 |

# DEFAULT FILERS (AUDITED ACCOUNTS)

Quoted companies on The Exchange are required to file their financial statements on a timely basis in accordance with Appendix 111 of the Listing Rules. The Exchange has identified the companies listed on Schedules Two and Three as companies that have not met the minimum listing standards in terms of timely disclosure of their Audited Annual financial performance and are thus operating below the listing standards (BLS) of The Exchange.

The Sanctions for non-compliance with periodic financial disclosure obligations are clearly spelt out in Appendix 111 of the Listing Rules and The Exchange will protect the integrity of its Rules.

**SCHEDULE TWO**

| BANKS AND INSURANCE COMPANIES | | | | |
|---|---|---|---|---|
| S/NO | COMPANY | YE | SYMBOL | REMARKS |
| 1 | Union Homes Savings & Loans Plc | Mar | BLS | Non rendition of Audited Financial Statements 2010 |
| 2 | African Alliance Insurance Plc | Dec | BLS | Non rendition of Audited Financial Statements 2011 |
| 3 | Equity Assurance Plc | Dec | BLS | Non rendition of Audited Financial Statements 2011 |
| 4 | Goldlink Insurance Plc | Dec | BLS | Non rendition of Audited Financial Statements 2011 |
| 5 | Great Nigeria Insurance Plc | Dec | BLS | Non rendition of Audited Financial Statements 2011 |
| 6 | Guinea Insurance Plc | Dec | BLS | Non rendition of Audited Financial Statements 2011 |
| 7 | International Energy Insurance | Dec | BLS | Non rendition of Audited Financial Statements 2011 |
| 8 | Mutual Benefit Assurance Plc | Dec | BLS | Non rendition of Audited Financial Statements 2011 |
| 9 | Staco Insurance Plc | Dec | BLS | Non rendition of Audited Financial Statements 2011 |
| 10 | Standard Alliance Plc | Dec | BLS | Non rendition of Audited Financial Statements 2011 |

| | | | | |
|---|---|---|---|---|
| 11 | Unic Insurance Plc | Dec | BLS | Non rendition of Audited Financial Statements 2011 |
| 12 | Wema Bank Plc | Dec | BLS | Non rendition of Audited Financial Statements 2011 |

SCHEDULE THREE

| OTHER COMPANIES | | | | |
|---|---|---|---|---|
| 1 | G Cappa Plc | Mar | BLS | Non rendition of Audited Financial Statements 2010 |
| 2 | Golden Guinea Brewery | Mar | BLS | Non rendition of Audited Financial Statements 2010 |
| 3 | Nigerian German Chemicals Plc | Mar | BLS | Non rendition of Audited Financial Statements 2012 |
| 4 | Neimeth International Pharm Plc | Mar (12 months) | BLS | Non rendition of Audited Financial Statements 2012 |
| 5 | Premier Breweries Plc | Mar | BLS | Non rendition of Audited Financial Statements 2012 |
| 6 | Costain (W.A.) Plc | Mar | BLS | Non rendition of Audited Financial Statements 2012 |
| 7 | Adswitch Plc | April | BLS | Non rendition of Audited Financial Statements 2012 |
| 8 | Multi-Trex Integrated Foods Plc | April | BLS | Non rendition of Audited Financial Statements 2012 |
| 9 | Nigerian Enamelware Co. Plc | April | BLS | Non rendition of Audited Financial Statements 2012 |
| 10 | West African Aluminium Products Plc | Sept | BLS | Non rendition of Audited Financial Statements 2010 |
| 11 | Nigerian Wire & Cable Plc | Sept | BLS | Non rendition of Audited Financial Statements 2011 |
| 12 | Nigerian Sewing Machine Plc | Dec | BLS | Non rendition of Audited Financial Statements 2006 |

| | | | | |
|---|---|---|---|---|
| 13 | Jos International Breweries Plc | Dec | BLS | Non rendition of Audited Financial Statements 2010 |
| 14 | Stokvis Nigeria Plc | Dec | BLS | Non rendition of Audited Financial Statements 2010 |
| 15 | IPWA Plc | Dec | BLS | Non rendition of Audited Financial Statements 2011 |
| 16 | Abplast Products Plc | Dec | BLS | Non rendition of Audited Financial Statements 2011 |
| 17 | Ikeja Hotel Plc | Dec | BLS | Non rendition of Audited Financial Statements 2011 |
| 18 | Daar Communications Plc | Dec | BLS | Non rendition of Audited Financial Statements 2011 |
| 19 | Afrik Pharmaceutical | Dec | BLS | Non rendition of Audited Financial Statements 2011 |
| 20 | Big Treat Plc | Dec | BLS | Regulatory Issue |
| 21 | Mtech Plc | Dec | BLS | Regulatory Issue |
| 22 | Investment & Allied Assurance Plc | Dec | BLS | Regulatory Issue |

The Exchange has identified the companies listed on Schedule Four as companies slated for delisting for various reasons which are stated.

**SCHEDULE FOUR**

| DELISTING IN PROCESS | | | | |
|---|---|---|---|---|
| 1 | Pinnacle Point Group Plc | Feb | DIP | Company in liquidation process |
| 2 | Poly Products Plc | Mar | DIP | Voluntary delisting due to harsh economic climate |
| 3 | Udeofson Garment Factory Plc | Sept | DIP | Regulatory delisting due to non-compliance to the Post-Listings Rules |
| 4 | Lennards Plc | Sept | DIP | Regulatory delisting due to non-compliance with the Post-Listings Rules |
| 5 | Nigerian Wire Industries Plc | Dec | DIP | Regulatory delisting due to non-compliance with the Post-Listings Rules |
| 6 | Aluminium Manufacturing Company of Nigeria Plc | Dec | DIP | Regulatory delisting due to non-compliance with the Post-Listings Rules |
| 7 | Union Dicon Salt Plc | Dec | DIP | Regulatory delisting due to non-compliance with the Post-Listings Rules |
| 8 | Capital Oil Plc | Dec | DIP | Regulatory delisting due to non-compliance with the Post-Listings Rules |
| 9 | Rokanna Industries Plc | Dec | DIP | Regulatory delisting due to non-compliance with the Post-Listings Rules |
| 10 | West African Glass Industries Plc | Dec | DIP | Regulatory delisting due to noncompliance with the Post-Listings Rules |
| 11 | Hallmark Paper Products Plc | Dec | DIP | Regulatory delisting due to non-compliance with the Post-Listings Rules |

| | | | | |
|---|---|---|---|---|
| **12** | **Afroil Plc** | **Dec** | **DIP** | **Regulatory delisting due to non-compliance with the Post-Listings Rules** |

# DEFAULT FILERS (QUARTERLY ACCOUNTS)

Quoted companies on The Exchange are required to file their financial statements on a timely basis in accordance with Appendix 111 of the Listing Rules. The Exchange has identified the companies listed on Schedule Five as companies that have not met the minimum listing standards in terms of timely disclosure of their quarterly financial performance and are thus operating below the listing standards (BLS) of The Exchange.

The Sanctions for non-compliance with periodic financial disclosure obligations are clearly spelt out in Appendix 111 of the Listing Rules and The Exchange will protect the integrity of its Rules.

**SCHEDULE FIVE**

| **2011 OUTSTANDING QUARTERLY RESULTS AS AT SEPTEMBER 28, 2012** | | | |
|---|---|---|---|
| **S/N** | **COMPANY** | **YR END** | **REMARKS** |
| **1** | **C & I Leasing Plc** | **Jan** | **Non rendition of 2nd Qtr (July 2011)** |
| **2** | **Pinnacle Point Group** | **Feb** | **Non rendition of 1st Qtr (May 2011), 2nd Qtr (Aug 2011) and 3rd Qtr (Nov 2011)** |
| **3** | **Golden Guinea Brew** | **Mar** | **Non rendition of 1st Qtr (June 2011), 2nd Qtr (Sept 2011) and 3rd Qtr (Dec 2011)** |
| **4** | **Premier Brew. Plc** | **Mar** | **Non rendition of 1st Qtr (June 2011), 2nd Qtr (Sept 2011) and 3rd Qtr (Dec 2011)** |
| **5** | **Thomas Wyatt Nig. Plc** | **Mar** | **Non rendition of 2nd Qtr (Sept 2011) and 3rd Qtr (Dec 2011)** |
| **6** | **Tripple Gee And Co. Plc** | **Mar** | **Non rendition of 3rd Qtr (Dec 2011)** |
| **7** | **Cappa & D'alberto Plc** | **Mar** | **Non rendition of 1st Qtr (June 2011), 2nd Qtr (Sept 2011) and 3rd Qtr (Dec 2011)** |
| **8** | **Costain (W.A) Plc** | **Mar** | **Non rendition of 1st Qtr (June 2011), 2nd Qtr (Sept 2011) and 3rd Qtr (Dec 2011)** |
| **9** | **G Cappa Plc** | **Mar** | **Non rendition of 1st Qtr (June 2011), 2nd Qtr (Sept 2011) and 3rd Qtr (Dec 2011)** |
| **10** | **Roads Nigeria Plc** | **Mar** | **Non rendition of 1st Qtr (June 2011), 2nd Qtr (Sept 2011) and 3rd Qtr (Dec 2011)** |
| **11** | **Aso Savings & Loans Plc** | **Mar** | **Non rendition of 1st Qtr (June 2011) and 3rd Qtr (Dec 2011)** |
| **12** | **Union Homes Savings & Loans** | **Mar** | **Non rendition of 1st Qtr (June 2011), 2nd Qtr (Sept 2011) and 3rd Qtr (Dec 2011)** |
| **13** | **Nigeria Energy Sector Plc** | **Mar** | **Non rendition of 1st Qtr (June 2011), 2nd Qtr (Sept 2011) and 3rd Qtr (Dec 2011)** |
| **14** | **Avon Crowncaps & Container** | **Mar** | **Non rendition of 2nd Qtr (Sept 2011)** |
| **15** | **Poly Products (Nig) Plc** | **Mar** | **Non rendition of 1st Qtr (June 2011) and 3rd Qtr (Dec 2011)** |
| **16** | **Academy Press Plc** | **Mar** | **Non rendition of 1st Qtr (June 2011)** |
| **17** | **Cutix Plc** | **Apr** | **Non rendition of 3rd Qtr (Jan 2011)** |
| **18** | **Multi-Trex Intergrated Foods Plc** | **Apr** | **Non rendition of 3rd Qtr (Jan 2012)** |
| **19** | **Nig. Enamelware Comp. Plc** | **Apr** | **Non rendition of 3rd Qtr (Jan 2012)** |
| **20** | **Adswitch Plc** | **Apr** | **Non rendition of 2nd Qtr (Oct 2011) and 3rd Qtr (Jan 2012)** |
| **21** | **Rak Unity Petroleum Plc** | **Apr** | **Non rendition of 1st Qtr (July 2011), 2nd Qtr (Oct 2011) and 3rd Qtr (Jan 2012)** |
| **22** | **PZ Industries Plc** | **May** | **Non rendition of 2nd Qtr (Nov 2011)** |

| | | | |
|---|---|---|---|
| 23 | Interlinked Technologies Plc | June | Non rendition of 3rd Qtr (Mar 2011) |
| 24 | Tourist Company Of Nigeria | June | Non rendition of 2nd Qtr (Dec 2011) and 3rd Qtr (Mar 2012) |
| 25 | Beco Petroleum Product | July | Non rendition of 1st Qtr (Oct 2011), 2nd Qtr (Jan 2012) and 3rd Qtr (April 2012) |
| 26 | DN Tyre & Rubber Plc | Sept | Non rendition of 1st Qtr (Dec 2011), 2nd Qtr (Mar 2012) and 3rd Qtr (June 2012) |
| 27 | John Holt Plc | Sept | Non rendition of 3rd Qtr (June 2011) |
| 28 | Lennards (Nig) Plc | Sept | Non rendition of 1st Qtr (Dec 2010), 2nd Qtr (Mar 2011) and 3rd Qtr (June 2011) |
| 29 | Afromedia | Sept | Non rendition of 3rd Qtr (June 2012) |
| 30 | Deap Capital Management & Trust Plc | Sept | Non rendition of 2nd Qtr (Mar 2012) and 3rd Qtr (June 2012) |
| 31 | Udeofson Garment Fact | Sept | Non rendition of 1st Qtr (Dec 2011)and 3rd Qtr (June 2012) |
| 32 | W. A. Aluminum Products Plc | Sept | Non rendition of 1st Qtr (Dec 2011), 2nd Qtr (Mar 2012) and 3rd Qtr (June 2012) |
| 33 | ETI Bank Plc | Dec | Non rendition of 2nd Qtr (June 2011) |
| 34 | Jos Int. Brew. Plc | Dec | Non rendition of 1st Qtr (Mar 2011), 2nd Qtr (June 2011) and 3rd Qtr (Sept 2011) |
| 35 | Cement Co Of North .Plc | Dec | Non rendition of 2nd Qtr (June 2011) |
| 36 | Nigerian Wire Industry .Plc | Dec | Non rendition of 1st Qtr (Mar 2011), 2nd Qtr (June 2011) and 3rd Qtr (Sept 2011) |
| 37 | African Paints (Nigeria) Plc | Dec | Non rendition of 1st Qtr (Mar 2011) |
| 38 | DN Meyer Plc | Dec | Non rendition of 1st Qtr (Mar 2011) |
| 39 | IPWA Plc | Dec | Non rendition of 1st Qtr (Mar 2011) and 2nd Qtr (June 2011) |
| 40 | Paints And Coatings Manu Plc | Dec | Non rendition of 1st Qtr (Mar 2011) and 2nd Qtr (June 2011) |
| 41 | Hallmark Paper Products Plc | Dec | Non rendition of 1st Qtr (Mar 2011), 2nd Qtr (June 2011) and 3rd Qtr (Sept 2011) |
| 42 | Arbico Plc | Dec | Non rendition of 3rd Qtr (Sept 2011) |
| 43 | Nigerian Wire & Cable Plc | Dec | Non rendition of 1st Qtr (Mar 2011), 2nd Qtr (June 2011) and 3rd Qtr (Sept 2011) |
| 44 | Big Treat Plc | Dec | Non rendition of 1st Qtr (Mar 2011), 2nd Qtr (June 2011) and 3rd Qtr (Sept 2011) |
| 45 | Union Dicon Salt Plc | Dec | Non rendition of 1st Qtr (Mar 2011), 2nd Qtr (June 2011) and 3rd Qtr (Sept 2011) |
| 46 | UTC Nigeria Plc | Dec | Non rendition of 1st Qtr (Mar 2011) and 2nd Qtr (June 2011) |
| 47 | Ekocorp Plc | Dec | Non rendition of 1st Qtr (Mar 2011) |
| 48 | Fidson Healthcare Plc | Dec | Non rendition of 1st Qtr (Mar 2011) |
| 49 | Pharma Deko Plc | Dec | Non rendition of 1st Qtr (Mar 2011) |
| 50 | Union Diagnostic & Clinical Services | Dec | Non rendition of 1st Qtr (Mar 2011), 2nd Qtr (June 2011) and 3rd Qtr (Sept 2011) |
| 51 | Aluminium Extrusion Nig. Plc | Dec | Non rendition of 1st Qtr (Mar 2011) |
| 52 | Aluminium Man. Of Nigeria Plc | Dec | Non rendition of 3rd Qtr (Sept 2011) |
| 53 | First Aluminium Nigeria Plc | Dec | Non rendition of 1st Qtr (Mar 2011) |

| | | | |
|---|---|---|---|
| 54 | Vono Products Plc | Dec | Non rendition of 1st Qtr (Mar 2011) |
| 55 | E-Tranzact | Dec | Non rendition of 2nd Qtr (June 2011) |
| 56 | Mtech Communications Plc | Dec | Non rendition of 1st Qtr (Mar 2011), 2nd Qtr (June 2011) and 3rd Qtr (Sept 2011) |
| 57 | Mti Plc | Dec | Non rendition of 1st Qtr (Mar 2011), 2nd Qtr (June 2011) and 3rd Qtr (Sept 2011) |
| 58 | African Alliance Insurance Plc | Dec | Non rendition of 1st Qtr (Mar 2011), 2nd Qtr (June 2011) and 3rd Qtr (Sept 2011) |
| 59 | AIICO Insurance Plc | Dec | Non rendition of 1st Qtr (Mar 2011) |
| 60 | Continental Reinsurance Plc | Dec | Non rendition of 2nd Qtr (June 2011) |
| 61 | Cornerstone Insurance Plc | Dec | Non rendition of 1st Qtr (Mar 2011) |
| 62 | Great Nigeria Insurance Plc | Dec | Non rendition of 1st Qtr (Mar 2011) |
| 63 | Guinea Insurance Plc | Dec | Non rendition of 1st Qtr (Mar 2011) |
| 64 | Intercontinental Wapic Insurance Plc | Dec | Non rendition of 1st Qtr (Mar 2011) and 2nd Qtr (June 2011) |
| 65 | International Energy Insurance | Dec | Non rendition of 1st Qtr (Mar 2011) |
| 66 | Investment & Allied Assurance | Dec | Non rendition of 1st Qtr (Mar 2011), 2nd Qtr (June 2011) and 3rd Qtr (Sept 2011) |
| 67 | Mutual Benefit Assurance | Dec | Non rendition of 1st Qtr (Mar 2011) |
| 68 | Unity Kapital Assurance | Dec | Non rendition of 1st Qtr (Mar 2011) |
| 69 | Universal Insurance Co. | Dec | Non rendition of 1st Qtr (Mar 2011), 2nd Qtr (June 2011) and 3rd Qtr (Sept 2011) |
| 70 | Nig. Sewing Mach. Man. Co. Plc | Dec | Non rendition of 1st Qtr (Mar 2011), 2nd Qtr (June 2011) and 3rd Qtr (Sept 2011) |
| 71 | Stockvis Nigeria Plc | Dec | Non rendition of 1st Qtr (Mar 2011), 2nd Qtr (June 2011) and 3rd Qtr (Sept 2011) |
| 72 | Daar Communications Plc | Dec | Non rendition of 1st Qtr (Mar 2011), 2nd Qtr (June 2011) and 3rd Qtr (Sept 2011) |
| 73 | Resort Savings & Loans | Dec | Non rendition of 1st Qtr (Mar 2011) |
| 74 | Sim Capital Alliance Value | Dec | Non rendition of 1st Qtr (Mar 2011), 2nd Qtr (June 2011) and 3rd Qtr (Sept 2011) |
| 75 | Abplast Products Plc | Dec | Non rendition of 1st Qtr (Mar 2011), 2nd Qtr (June 2011) and 3rd Qtr (Sept 2011) |
| 76 | W.A Glass Ind. Plc | Dec | Non rendition of 1st Qtr (Mar 2011), 2nd Qtr (June 2011) and 3rd Qtr (Sept 2011) |
| 77 | Afroil Plc | Dec | Non rendition of 1st Qtr (Mar 2011), 2nd Qtr (June 2011) and 3rd Qtr (Sept 2011) |
| 78 | Forte Oil Plc | Dec | Non rendition of 2nd Qtr (June 2011) |
| 79 | Mobil Oil Nigeria Plc | Dec | Non rendition of 1st Qtr (Mar 2011) |
| 80 | MRS Oil Plc | Dec | Non rendition of 1st Qtr (Mar 2011) |
| 81 | Oando Plc | Dec | Non rendition of 2nd Qtr (June 2011) |
| 82 | Skye Shelter Fund Plc | Dec | Non rendition of 1st Qtr (Mar 2011), 2nd Qtr (June 2011) and 3rd Qtr (Sept 2011) |

| | | | |
|---|---|---|---|
| 83 | Union Homes Real Estate Plc | Dec | Non rendition of 1st Qtr (Mar 2011), 2nd Qtr (June 2011) and 3rd Qtr (Sept 2011) |
| 84 | Afrik Pharmaceuticals | Dec | Non rendition of 2nd Qtr (June 2011) |
| 85 | Anino International | Dec | Non rendition of 2nd Qtr (June 2011) |
| 86 | Capital Oil Plc | Dec | Non rendition of 2nd Qtr (June 2011) |
| 88 | McNichols Plc | Dec | Non rendition of 2nd Qtr (June 2011) |
| 89 | Rokana Industries Plc | Dec | Non rendition of 2nd Qtr (June 2011) |
| 90 | Smart Products Nigeria Plc | Dec | Non rendition of 2nd Qtr (June 2011) |

# FREE FLOAT DEFICIENCY

Companies listed on The Exchange must maintain a minimum free float for the set standards under which they are listed in order to ensure that there is an orderly and liquid market in their securities.
The free float requirement for companies on the Main Board is 20% and 15% for ASEM companies.

The Exchange has identified five companies that have free float deficiencies. These companies applied for waivers from The Quotations Committee and specifically provided compliance plans with tentative timelines to support their requests.
The Quotations Committee considered and approved an extended timeframe for the companies to regain compliance to this Listing Requirement. The companies are however required to also provide quarterly disclosure reports to The Exchange detailing their level of implementation of the compliance plans.

The names of the companies in this category are contained in Schedule six.

**SCHEDULE SIX**

| COMPANIES WITH FREE FLOAT DEFICIENCY | | |
|---|---|---|
| **ISSUER** | **% OF DEFICIENCY** | **COMPLIANCE DUE DATE** |
| **Tourist Company Of Nigeria Plc** | **1.31** | **28-Feb-13** |
| **NPF Microfinance Bank Plc** | **14.68** | **31-May-13** |
| **Dangote Cement Plc** | **5.11** | **26-Oct-14** |
| **Studio Press Plc** | **8.46** | **PENDING COMPLETION OF ITS PLACING** |
| **Union Bank Of Nigeria Plc** | **14.00** | **30-Jun-17** |

# DISSEMINATION OF INFORMATION TO THE PRINT AND ELECTRONIC MEDIA (UNAUTHORISED PUBLICATION)

Every company that is listed on The Exchange is required to provide The Exchange with timely information to enable it efficiently perform its function of maintaining an orderly market. In accordance with the provisions of Appendix 111 of the Listing Rules, quoted companies are required to obtain prior written approval before publications are made in the media.

The companies listed in Schedules Seven and Eight contravened the provisions of the Listing Rules and The Exchange applied the sanctions prescribed by the Rules and the companies discharged their financial obligations.

## SCHEDULE SEVEN

| PUBLICATIONS WITHOUT NSE'S WRITTEN APPROVAL IN 2011 | | | |
|---|---|---|---|
| **S/No** | **NAME OF COMPANIES** | **PENALTY (₦)** | **NATURE OF PUBLICATION** |
| 1 | Mobil Oil Plc | 1,016,000.00 | Interim Results |
| 8 | Larfarge Wapco | 700,000.00 | Interim Results |
| 6 | Guinea Insurance Plc | 157,172.40 | Audited Account |
| 3 | Transnational Corp | 762,800.00 | Changes in the Board |
| 2 | Stanbic Ibtc Bank | 102,060.00 | Appointment of Directors |
| 4 | Wema Bank Plc | 352,800.00 | Appointment of Directors |
| 5 | Neimeth Int'l Pharm | 181,440.00 | Appointment of Acting CEO |
| 7 | Honeywell Flour Mills Plc | 646,800.00 | Appointment of Directors |
| 9 | Diamond Bank Plc | 406,000.00 | Appointment of Directors |

## SCHEDULE EIGHT

| PUBLICATION WITHOUT NSE'S WRITTEN APPROVAL IN 2012 | | | |
|---|---|---|---|
| **S/No** | **NAME OF COMPANIES** | **PENALTY (₦)** | **NATURE OF PUBLICATION** |
| 1 | Multiverse Plc | 496,125.00 | Appointment of Directors |
| 2 | Unity Bank Plc | 1,543,500.00 | Notice of Divestment of Holdings of Unity Bank Plc from its Non-Banking Subsidiaries |
| 3 | First Bank Of Nigeria Plc | 2,100,000.00 | Notice of Extra-Ordinary General Meeting |

# SANCTIONS FOR LATE FILERS OF FINANCIAL STATEMENTS

Contained in schedules nine and ten are the list of companies that filed their 2011 and 2012 financial statements after due date and The Exchange applied sanctions in accordance with the provisions of Section 14 of Appendix 111 of the Listing Rules .

## SCHEDULE NINE

| SANCTIONS FOR LATE FILINGS | | | |
|---|---|---|---|
| **S/No** | **NAME OF COMPANIES** | **PENALTY (₦)** | **ACCOUNTS** |
| **1** | **Nigerian German Chemical** | **211,428.57** | **Audited (Mar 2011) and 1st Qtr (June 2011)** |
| **2** | **Chellarams** | **30,000.00** | **3rd Qtr (Dec 2011)** |
| **3** | **Beco Petroleum Product** | **210,000.00** | **2nd Qtr (Jan 2011) and 3rd Qtr (April 2011)** |
| **4** | **Vitafoam Nigeria Plc** | **22,857.14** | **Audited (September 2010) and 1st Qtr (Dec 2010)** |
| **5** | **Afromedia** | **24,285.71** | **1st Qtr (Dec 2011)** |
| **6** | **Greif Nigeria Plc** | **112,857.14** | **Audited (October 2010), 1st Qtr (Jan 2011) and 2nd Qtr (April 2011)** |
| **7** | **FTN Cocoa Processors Plc** | **245,714.29** | **Audited (Dec 2010), 1st Qtr (Mar 2011) and 2nd Qtr (June 2011)** |
| **8** | **R.T Briscoe Plc** | **14,285.71** | **Audited (Dec 2010** |
| **9** | **Access Bank (Nig) Plc** | **4,285.71** | **2nd Qtr (June 2011)** |
| **10** | **Fidelity Bank Plc** | **5,714.29** | **Audited (Dec 2010)** |
| **11** | **Sterling Bank Plc** | **11,428.57** | **Audited (Dec 2010)** |
| **12** | **First Bank Of Nig. Plc** | **15,714.29** | **Audited (Dec 2010)** |
| **13** | **UBA Plc** | **15,714.29** | **Audited (Dec 2010)** |
| **14** | **First Inland Bank** | **35,714.29** | **Audited (Dec 2010), 1st Qtr (Mar 2011) and 2nd Qtr (June 2011)** |
| **15** | **Union Bank Plc** | **167,142.86** | **Audited (Dec 2010), 1st Qtr (Mar 2011) and 2nd Qtr (June 2011)** |
| **16** | **Int. Brew. Plc** | **22,857.14** | **Audited (Dec 2010) and 1st Qtr (Mar 2011)** |
| **17** | **Dangote Cement Plc** | **7,142.86** | **Audited (Dec 2010)** |
| **18** | **Cement Co Of North .Plc** | **12,857.14** | **Audited (Dec 2010), 1st Qtr (Mar 2011) and 2nd Qtr (June 2011)** |
| **19** | **Ashaka Cement. Plc** | **160,000.00** | **Audited (Dec 2010), 1st Qtr (Mar 2011) and 2nd Qtr (June 2011)** |
| **20** | **Portland Paint & Product** | **2,857.14** | **Audited (Dec 2010)** |
| **21** | **Berger Paints Plc** | **22,857.14** | **Audited (Dec 2010)** |
| **22** | **Courteville Business Solutions Plc** | **7,142.86** | **Audited (Dec 2010) and 1st Qtr (Mar 2011)** |
| **23** | **NCR (Nigeria) Plc** | **94,285.71** | **Audited (Dec 2010)** |
| **24** | **Unilever Plc** | **4,285.71** | **Audited (Dec 2010)** |
| **25** | **A.G Leventis Nigeria Plc** | **41,428.57** | **Audited (Dec 2010)** |
| **26** | **SCOA Nigeria Plc** | **152,857.14** | **Audited (Dec 2010) and 1st Qtr (Mar 2011)** |
| **27** | **Transnational Corporation** | **201,428.57** | **Audited (Dec 2010) and 1st Qtr (Mar 2011)** |
| **28** | **Multiverse Resources Plc** | **68,571.43** | **Audited (Dec 2010)** |
| **29** | **Julius Berger Nigeria Plc** | **81,428.57** | **Audited (Dec 2010)** |
| **30** | **National Salt Co. Nig. Plc** | **68,571.43** | **Audited (Dec 2010) and 1st Qtr (Mar 2011)** |
| **31** | **UTC Nigeria Plc** | **98,571.43** | **Audited (Dec 2010), 1st Qtr (Mar 2011) and 2nd Qtr (June 2011)** |

| | | | |
|---|---|---|---|
| 32 | Dangote Sugar Plc | 152,857.14 | Audited (Dec 2010), 1st Qtr (Mar 2011) and 2nd Qtr (June 2011) |
| 33 | Dangote Flour Mills Plc | 567,142.86 | Audited (Dec 2010), 1st Qtr (Mar 2011), 2nd Qtr (June 2011) and 3rd Qtr (September 2011) |
| 34 | Evans Medical Plc | 8,571.43 | Audited (Dec 2010) and 2nd Qtr (June 2011) |
| 35 | Morison Industries Plc | 220,000.00 | Audited (Dec 2010), and 1st Qtr (Mar 2011) |
| 36 | Ekocorp Plc | 275,714.29 | Audited (Dec 2010), 1st Qtr (Mar 2011) and 2nd Qtr (June 2011) |
| 37 | Ikeja Hotel Plc | 332,857.14 | Audited (Dec 2010), 1st Qtr (Mar 2011) and 2nd Qtr (June 2011) |
| 38 | Aluminium Extrusion Nig. Plc | 78,571.43 | Audited (Dec 2010) and 1st Qtr (Mar 2011) |
| 39 | First Aluminium Nigeria Plc | 101,428.57 | Audited (Dec 2010) and 1st Qtr (Mar 2011 |
| 40 | Vono Products Plc | 127,142.86 | Audited (Dec 2010) |
| 41 | E-Tranzact | 197,142.86 | Audited (Dec 2010), 1st Qtr (Mar 2011) and 2nd Qtr (June 2011) |
| 42 | Equity Assurance Plc | 514,285.71 | Audited (Dec 2010), 1st Qtr (Mar 2011), 2nd Qtr (June 2011) and 3rd Qtr (September) |
| 43 | Prestige Assurance Co. Plc | 15,714.29 | Audited (Dec 2010), 1st Qtr (Mar 2011) and 2nd Qtr (June 2011) |
| 44 | Law Union And Rock Ins. Plc | 31,428.57 | Audited (Dec 2010) |
| 45 | Regency Alliance Insurance | 78,571.43 | Audited (Dec 2010) |
| 46 | Oasis Insurance Plc | 102,857.14 | Audited (Dec 2010) |
| 47 | Goldlink Insurance Plc | 107,142.86 | Audited (Dec 2010) and 1st Qtr (Mar 2011) |
| 48 | Guinea Insurance Plc | 147,571.43 | Audited (Dec 2010) and 2nd Qtr (June 2011) |
| 49 | Linkage Assurance Plc | 182,857.14 | Audited (Dec 2010) and 1st Qtr (Mar 2011) |
| 50 | Great Nigeria Insurance Plc | 187,142.86 | Audited (Dec 2010) and 1st Qtr (Mar 2011) |
| 51 | NEM Insurance Company Plc | 206,000.00 | Audited (Dec 2010), 1st Qtr (Mar 2011) and 2nd Qtr (June 2011) |
| 52 | AIICO Insurance Plc | 211,428.57 | Audited (Dec 2010) and 1st Qtr (Mar 2011) |
| 53 | International Energy Insurance | 224,285.71 | Audited (Dec 2010) |
| 54 | Niger Insurance Co. Plc | 258,570.78 | Audited (Dec 2010), 1st Qtr (Mar 2011), 2nd Qtr (June 2011) and 3rd Qtr (September) |
| 55 | Staco Plc | 334,285.71 | 1st Qtr (Mar 2011) and 2nd Qtr (June 2011) |
| 56 | Standard Alliance Plc | 464,285.71 | Audited (Dec 2010), 1st Qtr (Mar 2011) and 2nd Qtr (June 2011) |
| 57 | Universal Insurance Plc | 245,714.29 | Audited (Dec 2010) |
| 58 | Japaul Nig Plc | 35,714.29 | Audited (Dec 2010) and 2nd Qtr (June 2011) |
| 59 | Daar Communications Plc | 251,428.57 | Audited (Dec 2010) |
| 60 | Abbey Building Society Plc | 114,285.71 | Audited (Dec 2010) and 1st Qtr (Mar 2011) |
| 61 | Royal Exchange Plc | 214,285.71 | Audited (Dec 2010), 1st Qtr (Mar 2011) and 2nd Qtr (June 2011) |
| 62 | Oando Plc | 5,714.29 | Audited (Dec 2010), 1st Qtr (Mar 2011) and 2nd Qtr (June 2011) |
| 63 | Total Nigeria Plc | 28,571.43 | Audited (Dec 2010) |
| 64 | Conoil Plc | 57,142.86 | Audited (Dec 2010) and 1st Qtr (Mar 2011) |
| 65 | Longman Nigeria | 571,428.57 | Audited (Dec 2010) |

## SCHEDULE TEN

| SANCTIONS FOR LATE FILINGS | | | |
|---|---|---|---|
| S/No | NAME OF COMPANIES | PENALTY (₦) | ACCOUNTS |
| 1 | C & I Leasing Plc | 1,050,000.00 | Audited (Jan 2012 ) |
| 2 | Costain (W.A) Plc | 2,850,000.00 | Audited (Mar 2011) |
| 3 | John Holt Plc | 1,700,000.00 | Audited (Sept 2011) |
| 4 | Eterna Plc | 100,000.00 | Audited (Dec 2011) |
| 5 | Ftn Cocoa Plc | 200,000.00 | Audited (Dec 2011) |
| 6 | Dangote Flour Mills Plc | 400,000.00 | Audited (Dec 2011) |
| 7 | Regency Alliance Insurance Plc | 500,000.00 | Audited (Dec 2011) |
| 8 | Oando Plc | 500,000.00 | Audited (Dec 2011) |
| 9 | Premier Paints Plc | 700,000.00 | Audited (Dec 2011) |
| 10 | Scoa Nigeria Plc | 800,000.00 | Audited (Dec 2011) |
| 11 | Universal Insurance Plc | 900,000.00 | Audited (Dec 2011) |
| 12 | Union Bank Plc | 900,000.00 | Audited (Dec 2011) |
| 13 | Royal Exchange Plc | 900,000.00 | Audited (Dec 2011) |
| 14 | Crusader Nigeria Plc | 800,000.00 | Audited (Dec 2011) |
| 15 | Niger Insurance Plc | 900,000.00 | Audited (Dec 2011) |
| 16 | Unity Kapital Assurance Plc | 900,000.00 | Audited (Dec 2011) |
| 17 | Conoil Plc | 1,200,000.00 | Audited (Dec 2011) |
| 18 | Cornerstone Insurance Plc | 1,500,000.00 | Audited (Dec 2011) |

# TRANSPARENCY DISCLOSURES

The Issuers detailed below in schedule eleven filed their applications for quotations with the Listings Regulation Department.

## SCHEDULE ELEVEN

| ISSUER | SYMBOL | CAPITAL RAISING METHOD | STOCKBROKER | ISSUING HOUSE | STATUS |
|---|---|---|---|---|---|
| **STATE BONDS** | | | | | |
| Osun State Government | CRE | Offer for Subscription of N60 billion Osun State Bond | FCSL Asset Management Limited | Chapel Hill Advisory Partners Limited | Book building in process |
| Lagos State Government | CRE | Offer for Subscription of N80 billion Series 1 Bond due 2019 at N1000 under its N167 billion, Debt Issuance Programme. | Marina Securities Limited | Chapel Hill Advisory Partners Limited | Book building in process |
| Gombe State Government | CRE | Offer for Subscription of N20 billion Series 1 Bond due 2018 at N1000 under its N30 billion, Debt Issuance Programme | Marina Securities Limited | Access Bank Plc | Approval in Principle |
| River State Government | CRE | Offer for Subscription of N100 billion Series 1 Bond due 2017 at N1000 under its N250 billion, Debt Issuance Programme | BGL Securities Limited | Zenith Bank Plc; | Book building in process |
| **CORPORATE BONDS** | | | | | |
| International Finance Corporation | CRE | Offer for subscription of fixed rate senior Unsecured Notes | Stanbic IBTC Stockbrokers Limited | | Book building in process |
| C & I Leasing Nigeria Plc | CRE | Registration of C & I Leasing N8 billion Fixed Rate 5 year Bond issue being series 1 of the N10 billion Bond Issuance Programme (21/09/12) | WSTC Financial Services Limited | FBN Capital Limited | Book building in process |
| **MERGERS** | | | | | |
| Stanbic IBTC Plc | CRE | Scheme of Arrangement (Compliance with CBN's directives) | Stanbic IBTC Stockbrokers Limited | | Court ordered meeting held, yet to list Holdco |
| First Bank of Nigeria Plc | CRE | Scheme of Arrangement (Compliance with CBN's directives) | FBN Securities Limited | | Court ordered meeting held, yet to list Holdco |
| Cornerstone Insurance Plc/ Linkage Assurance Plc | CRE | Scheme of Merger between Cornerstone Insurance and Linkage | CSL Stockbrokers Limited | FCMB Capital Markets Limited | Application Approved by Quotations Committee |

| | | | | | |
|---|---|---|---|---|---|
| | | Assurance Plc | | | |
| Rak Unity Petroleum Plc | CRE | Special Placing | Afrinvest WA Limited | Afrinvest WA Limited | Application Approved by Quotations Committee |
| Ecobank Transnational Inc. Plc | CRE | Special Placing on behalf of Govt. Employee Pension Fund | EDC Securities Limited | Renaissance Capital Limited | Application Approved by Quotations Committee |
| African Paints Plc | CRE | Rights Issue | Chapel Hill Denham Securities Limited | Chapel Hill Advisory Partners Limited | Application Approved by Quotations Committee |
| First City Monument Bank Plc | CRE | Acquisition of Fin Bank Plc | CSL Securities Limited | FCMB Capital Markets Limited | Application received |

## SCHEDULE TWELVE

| | | | | | |
|---|---|---|---|---|---|
| **LISTING BY INTRODUCTION** | | | | | |
| Spring Mortgage Plc | CRE | Listing by Introduction of Spring Mortgage Bank Plc 4,894,269,764 ordinary shares of 50kobo each at N2.00 per share | LB Securities Limited | Pan African Capital Plc | Application received |
| **INITIAL PUBLIC OFFERING** | | | | | |
| FBN Money Market Fund | CRE | Initial Public Offering of 15,000,000 units of N100.00 each at par | FBN Securities Limited | Guaranty Trust Bank Plc | Application received |
| Fixed Income Fund | CRE | Initial Public Offering of 1,500,000 units of N1,000.00 each at par in the FBN Fixed Income Fund | FBN Securities Limited | Guaranty Trust Bank Plc | Application received |
| **RIGHT ISSUE** | | | | | |
| Prestige Assurance Plc | CRE | Rights Issue of 2,508,315,438 ordinary shares of 50k each at N50k per share | Imperial Asset Managers Limited | Sterling Capital Markets Limited and Nigeria Stockbrokers Limited | Application received |
| Oando Plc | CRE | Rights Issue of 3,032,157,517 ordinary shares of 50k each at N12.00 per share on the basis of 4 new for every | Vetiva Asset Management Limited | Vetiva Capital Management Limited | Application received |

| | | | | | |
|---|---|---|---|---|---|
| | | 3 ordinary shares held as at Friday, October 19, 2012 | | | |
| **RECONSTRUCTION** | | | | | |
| United Bank for Africa Plc (Holdco) | | | | | Application on hold at the instance Issuer |
| **ETF/INDEX FUND** | | | | | |
| Vetiva NSE Index Fund | CRE | Listing of 100,000,000 units of VNSE 30 Index securities | Vetiva Asset Management Limited | Cordros Capital Limited | Application received |
| **NOTIFICATIONS** | | | | | |
| Flour Mills of Nigeria Plc | CRE | Scheme of Merger between Flour Mills of Nigeria Plc, Nigerian Bag Manufacturing Co. Plc and Northern Bag Manufacturing Co. Ltd. | CSL Stockbrokers Limited | | |
| Wema Bank Plc | CRE | Divestment from Non-Banking Activities | Greenwich Trust Limited | | |
| Fortis Microfinance Bank Plc | CRE | Prospective Capital Raising | | | |
| Wapic Insurance Plc | CRE | Merger with Intercontinental Properties | Marina Securities Limited | | |
| Starcomms Nig. Plc | CRE | Proposed share reconstruction | | | |
| Flour Mills of Nigeria Plc | CRE | Merger with Nig. Bag Manu. Coy Plc and Northern Bag Manu. Coy. Limited | CSL Stockbrokers Limited | | |
| Cadbury Nigeria Plc | CRE | Proposed Merger between Cadbury and Stanmark Cocoa Processing Company Limited | Stanbic IBTC Stockbrokers Limited | | |
| Access Bank Plc | CRE | Divestment exercise of Access Bank Plc from Intercontinental Homes Savings and Loans Plc | Greenwich Trusted Limited | | |

## APPROVED APPLICATIONS FOR LISTING

The Quotations Committee of Management considered and approved the applications for listings by the Issuers detailed in schedule thirteen.

**SCHEDULE THIRTEEN**

**APPROVED APPLICATIONS AS AT SEPTEMBER 28, 2012**

| ISSUER | CAPITAL RAISING METHOD | STOCK BROKER | ISSUING HOUSE |
|---|---|---|---|
| **CORPORATE BONDS** | | | |
| **Chellerams Plc** | **Offer for Subscription of 540,000,000 MPR+5% Series 2 Unsecured Floating Rate Bonds due February 17, 2019** | **First Securities Discount House** | **Dunn Loren Merrifield** |
| **FMBN SPV Issuer Limited** | **N6 Billion 17.25% Series 2 Fixed Rate Notes (The "Issue") issued under the N100,000,000,000 Residential Mortgage Backed Securities Programme** | **ESS Investment and Trust Limited** | **Dunn Loren Merrifield** |
| **INITIAL PUBLIC OFFERING** | | | |
| **UACN Property Development Company Plc Real Estate Investment Trust (REIT)** | **Initial Public Offering of 3,000,000,000 units of N10.00 each at par in the UPDC Real Estate Investment Company (REIT)** | **Stanbic IBTC Stockbrokers Limited** | **Stanbic IBTC Bank Plc** |
| **PLACING** | | | |
| **Premier Paints Plc** | **Placing of 48,000,000 ordinary shares of 50k each of the company at N1.00 per share with Clover Global Resources Limited** | **Trust Yield Securities Limited** | **Mainstreet Bank Capital Limited** |
| **Ecobank Transnational Incorporated Plc** | **Special Placing of 401,259,881 ordinary shares at N12.12 per share in favour of existing shareholders of Ecobank Nigeria Plc on a pro-rata basis of their shareholding in Ecobank Nigeria Plc** | **EDC Securities Limited** | **BGL Plc, ICMG Securities Ltd & Partnership Investment Co. Plc** |

| | | | |
|---|---|---|---|
| **Guinea Insurance Plc** | **Special Placing of 740,000,000 ordinary shares of 50kobo each at 50kobo per share** | **Capital Asset Limited** | **Capital Asset Limited** |
| **Rak Unity Petroleum Plc:** | **Special Placing of 43,051,159 ordinary shares of 50kobo each at N7.90 per share** | **Afrinvest West Africa Limited** | **Afrinvest West Africa Limited** |
| **Ecobank Transnational Incorporated (ETI)** | **Special Placing of 3,125,000,000 ordinary shares of 0.25 cent at N12.86 per share in favour of Public Investment Corporation on behalf of Government Employee Pension Fund of South Africa** | **EDC Securities Limited** | **Renaissance Capital Limited** |
| **RIGHTS ISSUES** | | | |
| **Aso Savings and Loans Plc** | **Rights Issue of 11,046,189,224 ordinary shares of 50k each at 60k per share** | **Apt Securities and Fund Limited** | **Chapel Hill Advisory Partners Limited** |
| **African Paints Nigeria Plc** | **Rights Issue of 130,000,000 ordinary shares of 50k each at N1.25 per share** | **Chapel Hill Denham Securities Limited** | **Chapel Hill Advisory Partners Limited** |
| **MERGERS** | | | |
| **Nigeria Breweries Plc** | **Scheme of Merger between: Nigerian Breweries Plc and Sona System Associates Business Management Limited and between Nigerian Breweries Plc and Life Breweries Company Limited** | **Foresight Securities & Investment Limited** | **FCMB Capital Market Limited and Cordros Capital Markets Limited** |
| **Cornerstone Insurance Plc** | **Scheme of Merger between Cornerstone Insurance Plc and Linkage Insurance Plc** | **CSL Stockbrokers Limited** | **FCMB Capital Market Limited** |

**SCHEDULE FOURTEEN**

| | | | |
|---|---|---|---|
| **LISTING BY INTRODUCTION** | | | |
| **Fortis Microfinance Bank Plc** | **Listing by way of Introduction of 1,630,091,000 ordinary shares of 50kobo each at N5.00 per share** | **Primera Africa Securities Limited** | **DEAP Capital Management & Trust Limited** |
| **Geo-Fluids Plc** | **Application for Listing by Introduction of 4,257,667,518 ordinary shares of 50kobo each** | **Chartwell Securities Limited** | **N/A** |
| **TENDER OFFERS** | | | |
| **Guaranty Trust Assurance Plc** | **Tender Offer for Acquisition of Additional 732,405,689 ordinary shares of 50kobo each at N1.76 per share in Guaranty Trust Assurance Plc** | **Readings Investments Limited** | **N/A** |
| **Assur Africa Holding (AAH)** | **Tender Offer for Acquisition of additional 732,405,689 ordinary shares of 50kobo each at N1.76 per share in Guaranty Trust Assurance Plc** | **Readings Investments Limited** | **N/A** |
| **BLOCK DIVESTMENT/ACQUISITIONS** | | | |
| **Skye Bank Plc** | **Bulk Divestment of 1,785,627,772 ordinary shares of 50kobo each of Law Union & Rock Insurance Plc by Skye Bank Plc** | **Skye Stockbrokers Ltd** | **N/A** |
| **Dangote Flour Mills Plc** | **Proposed Acquisition Of 3,167,716,667 Ordinary Shares Of 50 Kobo Each Representing 63.35% Equity Stake In Dangote Flourmills Plc (Held By Dangote Industries Limited) By Tiger Brands Limited** | **Vetiva Securities Limited** | **N/A** |
| **RECONSTRUCTION/DELISTING** | | | |

| | | | |
|---|---|---|---|
| **Stanbic IBTC Plc** | **Scheme of Arrangement Between Stanbic IBTC Bank Plc ("Stanbic IBTC" or The Bank") and the holders of its fully paid ordinary shares of 50 kobo each to culminate in delisting of Stanbic IBTC Bank Plc and Listing of Stanbic IBTC Group Plc ("Holdco")** | **Stanbic IBTC Stockbrokers Limited** | **Stanbic IBTC Asset Management Limited** |
| **FBN Holdco Plc** | **Scheme of Arrangement Between First Bank of Nigeria Plc and the Holders of its fully paid ordinary shares of 50 kobo each in connection with the proposed Restructuring of First Bank of Nigeria Plc Under Financial Services** | **FBN Securities Limited** | **FBN Capital Limited** |

THE Nigerian STOCK EXCHANGE

# X – Compliance

**REPORT DATE: 17/05/2013**

X-Compliance report is a transparency initiative of The Exchange which is designed to maintain market integrity and protect the investors by providing compliance related information on all listed companies.

Companies that are listed on The Exchange are required to adhere to high disclosure standards which are prescribed in Appendix 111 of the Listing Rules. Financial information which is periodic disclosure and on-going material events disclosure should be released to The Exchange in a timely manner to enable it efficiently perform its function of maintaining an orderly market.

THE X-COMPLIANCE REPORT PROVIDES INFORMATION ON:

Released Financials
Early Filers of Audited Accounts
Companies that breached Listings Rules
Delinquent Filers of Audited Accounts
Delinquent Filers of Quarterly Reports
Companies that are Operating Below Listing Standards
Companies with Free-Float Deficiencies
Enforcement Actions against Companies
Companies slated for Delisting
Application for New Listings
Applications approved by the Quotations Committee of Management
Meetings of Companies

## RELEASED FINANCIALS

Details of the released financials can be found on The Nigerian Stock Exchange website (www.nse.com.ng)

## EARLY FILERS

Early filers are companies that file their financial statements at least two weeks before the due date.

Quoted companies on The Exchange are required to file their financial statements on a timely basis in accordance with Appendix 111 of the Listing Rules. The Exchange has identified the companies listed on Schedule One as companies that have exceeded the minimum listing standards in terms of timely disclosure of their Audited Annual and quarterly financial performance.

The Exchange is extremely proud of these companies and will continue to show case quoted companies that imbibe high corporate governance practices.

### SCHEDULE ONE
### INTERIM ACCOUNTS



| S/N | NAME OF COMPANY | QUARTER ENDED | DUE DATE | FILED DATE |
|---|---|---|---|---|
| 1 | Access Bank Plc | March 31, 2013 | May 15, 2013 | April 5, 2013 |
| 2 | Diamond Bank Plc | March 31, 2013 | May 15, 2013 | April 11, 2013 |
| 3 | Sterling Bank Plc | March 31, 2013 | May 15, 2013 | April 17, 2013 |
| 4 | GT Bank Plc | March 31, 2013 | May 15, 2013 | April 18, 2013 |
| 5 | Stanbic IBTC Holdings Plc | March 31, 2013 | May 15, 2013 | April 19, 2013 |
| 6 | Berger Paints Plc | March 31, 2013 | May 15, 2013 | April 19, 2013 |
| 7 | Unity Bank Plc | March 31, 2013 | May 15, 2013 | April 22, 2013 |
| 8 | Ecobank Transnational Incorporated Plc | March 31, 2013 | May 15, 2013 | April 23, 2013 |
| 9 | Trans Nationwide Express Plc | March 31, 2013 | May 15, 2013 | April 24, 2013 |
| 10 | Skye Bank Plc | March 31, 2013 | May 15, 2013 | April 24, 2013 |
| 11 | Unilever Plc | March 31, 2013 | May 15, 2013 | April 25, 2013 |
| 12 | Forte Oil Plc | March 31, 2013 | May 15, 2013 | April 26, 2013 |
| 13 | First Aluminium Nigeria Plc | March 31, 2013 | May 15, 2013 | April 29, 2013 |

### AUDITED

| S/N | NAME OF COMPANY | YEAR END | DUE DATE | FILED DATE |
|---|---|---|---|---|
| 1 | Nestle Nigeria Plc | December 31, 2012 | March 31, 2012 | February 20, 2013 |
| 2. | Nigerian Breweries Plc | December 31, 2012 | March 31, 2012 | February 22, 2013 |

| | | | | |
|---|---|---|---|---|
| **3** | **Pharma Deko Plc.** | **December 31, 2012** | **March 31, 2012** | **March 6, 2013** |

## BREACH OF VOLUNTARY DELISTING PROCESS

**CAPPA & D'ALBERTO NIGERIA PLC**

Cappa & D'Alberto Nigeria Plc released itself from compliance with the obligations inherent of a listed company as it failed to follow through the entire voluntary delisting process of The Exchange, which includes *inter alia,* paying off dissenting shareholders who opted to exit the company following the resolution passed by the majority shareholders on March 24, 2009, to delist. The resolution passed by the majority shareholders at the Extra- Ordinary General Meeting of March 24, 2009, does not exempt Cappa & D'Alberto Nigeria Plc from complying with regulatory obligations.

The Exchange will take appropriate legal steps to enforce its Rules and protect the interest of Investors.

## DEFAULT FILERS (AUDITED ACCOUNTS)

The Exchange has identified the companies listed on schedules two and three as companies that have not met the minimum listing standards in terms of timely disclosure of their audited annual financial performance and are thus operating Below the Listing Standards (BLS) of The Exchange.

The sanctions for non-compliance with periodic financial disclosure obligations are clearly spelt out in Appendix 111 of the Listing Rules and The Exchange will protect the integrity of its rules.



### SCHEDULE ONE

**BANKS AND INSURANCE COMPANIES**

| S/NO | COMPANY | YE | SYMBOL | REMARKS |
|---|---|---|---|---|
| 1 | **Union Homes Savings & Loans Plc** | **Mar** | **BLS** | **Non Rendition of Audited Financial Statements 2010, 2011** |
| 2 | ***Goldlink Insurance Plc** | **Dec** | **BLS** | **Non Rendition of Audited Financial Statements 2011** |

***Goldlink Insurance Plc : The Exchange suspended the trading on the company's shares with effect from November 2, 2012 following the appointment of an interim management by NAICOM to oversee the affairs of the company.**

### SCHEDULE TWO

**OTHER COMPANIES**

| | | | | |
|---|---|---|---|---|
| 1 | **G. Cappa Plc** | **Mar** | **BLS** | **Non Rendition of Audited Financial Statements 2011/2012** |
| 2 | **Nigerian German Chemicals Plc** | **Mar** | **BLS** | **Non Rendition of Audited Financial Statements 2012** |

| | | | | |
|---|---|---|---|---|
| 3 | West African Aluminium Products Plc | Sept | BLS | Non Rendition of Audited Financial Statements 2010 |
| 4 | Nigerian Wire & Cable Plc | Sept | BLS | Non Rendition of Audited Financial Statements 2011 |
| 5 | Jos International Breweries Plc | Dec | BLS | Non Rendition of Audited Financial Statements 2010 |
| 6 | Afrik Pharmaceutical Plc | Dec | BLS | Non Rendition of Audited Financial Statements 2011 |
| 7 | Big Treat Plc | Dec | BLS | Regulatory Issue |
| 8 | Mtech Plc | Dec | BLS | Regulatory Issue |
| 9 | Investment & Allied Assurance Plc | Dec | BLS | Regulatory Issue |

## QUARTERLY ACCOUNTS

Quoted companies on The Exchange are required to file their quarterly accounts within 45 days after the end of the quarter in accordance with +Appendix 111 of the Listing Rules. Details of the quarterly filings are listed on schedule five and can be downloaded from the released financials on the website.

The sanctions for non-compliance with periodic financial disclosure obligations are clearly spelt out in Appendix 111 of the Listing Rules and The Exchange will protect the integrity of its rules.

## SCHEDULE THREE:
## UNAUDITED FIRST QUARTER 2012

| S/NO | COMPANY | QTR | SYMBOL |
|---|---|---|---|
| 1 | Smart Product Nigeria Plc | March | BLS |
| 2 | Afrik Pharmaceuticals Plc | March | BLS |
| 3 | Adswitch Plc | July | BLS |
| 4 | RAK Unity Petroleum Plc | July | BLS |
| 5 | Union Ventures & Petroleum Plc | March | BLS |
| 6 | Juli Plc | March | BLS |
| 7 | Multi-Trex Integrated Foods Plc | July | BLS |
| 8 | Big Treat Plc | March | BLS |
| 9 | Vono Products Plc | March | BLS |
| 10 | Arbico Plc | March | BLS |
| 11 | G. Cappa Plc | June | BLS |
| 12 | Roads Nigeria Plc | June | BLS |
| 13 | Skye Shelter Fund Plc | March | BLS |
| 14 | Wema Bank Plc | March | BLS |
| 15 | African Alliance Insurance Plc | March | BLS |
| 16 | Cornerstone Insurance Plc | March | BLS |
| 17 | Goldlink Insurance Plc | March | BLS |
| 18 | Great Nigeria Insurance Plc | March | BLS |

| | | | |
|---|---|---|---|
| 19 | International Energy Insurance Plc | March | BLS |
| 20 | Investment & Allied Assurance Plc | March | BLS |
| 21 | Mutual Benefits Assurance Plc | March | BLS |
| 22 | Unity Kapital Assurance Plc | March | BLS |
| 23 | Universal Insurance Company Plc | March | BLS |
| 24 | Wapic Insurance Plc | March | BLS |
| 25 | Union Homes Savings & Loans Plc | June | BLS |
| 26 | Nigeria Energy Sector Fund | June | BLS |
| 27 | SIM Capital Alliance Fund | March | BLS |
| 28 | Ekocorp Plc | March | BLS |
| 30 | Union Diagnostic & Clinical Services Plc | March | BLS |
| 31 | Neimeth International Pharmaceuticals Plc | December | BLS |
| 32 | Nigerian German Chemical Plc | June | BLS |
| 33 | Evans Medical Plc | March | BLS |
| 34 | Fidson Healthcare Plc | March | BLS |
| 35 | Pharma Deko Plc | March | BLS |
| 36 | MTECH Communications Plc | March | BLS |
| 37 | MTI Plc | March | BLS |
| 38 | African Paints (Nigeria ) Plc | March | BLS |
| 39 | IPWA Plc | March | BLS |
| 40 | Nigerian Wire & Cable Plc | March | BLS |
| 41 | Thomas Wyatt Nigeria Plc | June | BLS |
| 42 | Academy Press Plc | June | BLS |
| 43 | Ikeja Hotel Plc | March | BLS |
| 44 | DAAR Communications Plc | March | BLS |
| 45 | Interlinked Technologies Plc | September | BLS |
| 46 | Deap Capital Management & Trust Plc | June | BLS |

## UNAUDITED HALF YEAR 2012

| S/NO | COMPANY | QTR | SYMBOL |
|---|---|---|---|
| 1 | FTN Cocoa Processors Plc | June | BLS |
| 2 | Smart Product Nigeria Plc | June | BLS |
| 3 | Afrik Pharmaceuticals Plc | June | BLS |
| 4 | Union Ventures & Petroleum Plc | June | BLS |
| 5 | John Holt Plc | March | BLS |
| 6 | DN Tyre & Rubber Plc | March | BLS |
| 7 | P.S Mandrides & Company Plc | June | BLS |
| 8 | Big Treat Plc | June | BLS |
| 9 | Vono Products Plc | June | BLS |
| 10 | Vitafoam Nigeria Plc | March | BLS |

| | | | |
|---|---|---|---|
| 11 | Arbico Plc | June | BLS |
| 12 | G. Cappa Plc | September | BLS |
| 13 | Roads Nigeria Plc | September | BLS |
| 14 | Union Homes Real Estate Plc | May | BLS |
| 16 | Wema Bank Plc | June | BLS |
| 17 | African Alliance Insurance Plc | June | BLS |
| 18 | Cornerstone Insurance Plc | June | BLS |
| 19 | Goldlink Insurance Plc | June | BLS |
| 20 | Great Nigeria Insurance Plc | June | BLS |
| 21 | International Energy Insurance Plc | June | BLS |
| 22 | Investment & Allied Assurance Plc | June | BLS |
| 23 | Mutual Benefits Assurance Plc | June | BLS |
| 24 | Sovereign Trust Insurance Plc | June | BLS |
| 25 | Unity Kapital Assurance Plc | June | BLS |
| 26 | Universal Insurance Company Plc | June | BLS |
| 27 | Aso Savings & Loans Plc | September | BLS |
| 28 | Union Homes Savings & Loans Plc | September | BLS |
| 29 | Royal Exchange Plc | June | BLS |
| 30 | SIM Capital Alliance Fund | June | BLS |
| 31 | Nigeria Energy Sector Fund | September | BLS |
| 32 | Ekocorp Plc | June | BLS |
| 33 | Union Diagnostic & Clinical Services Plc | June | BLS |
| 34 | Evans Medical Plc | June | BLS |
| 35 | Nigerian German Chemical Plc | September | BLS |
| 36 | MTECH Communications Plc | June | BLS |
| 37 | MTI Plc | June | BLS |
| 38 | African Paints (Nigeria) Plc | June | |
| 39 | IPWA Plc | June | BLS |
| 40 | Premier Paints Plc | June | BLS |
| 41 | Nigerian Wire & Cable Plc | June | BLS |
| 42 | Greif Nigeria Plc | April | BLS |
| 43 | Academy Press Plc | September | BLS |
| 44 | Ikeja Hotel Plc | June | BLS |
| 45 | DAAR Communications Plc | June | BLS |

## UNAUDITED NINE MONTHS 2012

| S/NO | COMPANY | QTR | SYMBOL |
|---|---|---|---|
| 1 | FTN Cocoa Processors Plc | Sept | BLS |
| 2 | G. Cappa Plc | Dec | BLS |
| 3 | Roads Nigeria Plc | December | BLS |
| 4 | Nigeria Energy Sector Plc | December | BLS |
| 5 | Smart Product Nigeria Plc | Sept | BLS |
| 6 | Afrik Pharmaceuticals Plc | Sept | BLS |
| 7 | Juli Plc | Sept | BLS |
| 8 | P.S Mandrides & Company Plc | June | BLS |
| 9 | Big Treat Plc | Sept | BLS |
| 10 | Nigerian German Chemical Plc | September | BLS |
| 11 | Dangote Flour Mills Plc | Sept | BLS |
| 12 | UTC Nigeria Plc | Sept | BLS |
| 13 | Vono Products Plc | Sept | BLS |
| 14 | Arbico Plc | Sept | BLS |
| 15 | Union Homes Real Estate Plc | Aug | BLS |
| 16 | Skye Shelter Fund Plc | Sept | BLS |
| 17 | Fortis Microfinance Bank Plc | Sept | BLS |
| 18 | Wema Bank Plc | Sept | BLS |
| 19 | Goldlink Insurance Plc | Sept | BLS |
| 20 | International Energy Insurance Plc | Sept | BLS |
| 21 | Investment & Allied Assurance Plc | Sept | BLS |
| 22 | Universal Insurance Company Plc | Sept | BLS |
| 23 | DEAP Capital Management & Trust Plc | June | BLS |
| 24 | SIM Capital Alliance Fund | Sept | BLS |
| 25 | MTECH Communications Plc | Sept | BLS |
| 26 | Chams Plc | Sept | BLS |
| 27 | MTI Plc | Sept | BLS |
| 28 | Cement Company of Northern Nigeria Plc | Sept | BLS |
| 29 | IPWA Plc | Sept | BLS |
| 30 | Portland Paint & Product Plc | Sept | BLS |
| 31 | Nigerian Wire & Cable Plc | Sept | BLS |
| 32 | Aluminium Manufacturing of Nigeria Plc | Sept | BLS |
| 33 | Ikeja Hotel Plc | Sept | BLS |
| 34 | DAAR Communications Plc | Sept | BLS |

# COMPANIES SLATED FOR DELISTING/RESTRUCTURING

The companies listed on schedule five are slated for delisting/restructuring for various reasons stated.

## SCHEDULE FIVE

| DELISTING IN PROCESS | | | |
|---|---|---|---|
| 1 | Pinnacle Point Group Plc | DIP | Company in liquidation process |
| 2 | Poly Products Plc | DIP | Voluntary delisting due to harsh economic climate |
| 3 | Nigerian Wire Industries Plc | DIP | Regulatory Delisting for reasons of non-compliance with Listing Rules |
| 4 | West African Aluminium Plc | DIP | Regulatory Delisting for reasons of non-compliance with Listing Rules |
| 5 | Afroil Plc | DIP | Regulatory Delisting for reasons of non-compliance with Listing Rules |

| RESTRUCTURING | | | |
|---|---|---|---|
| 1 | Lennards Plc | RESTRG | The company is restructuring to regularize its post-listing status on The NSE |
| 2 | Union Dicon Salt Plc | RESTRG | The company is restructuring to regularize its post-listing status on The NSE |
| 3 | Rokanna Industries Plc | RESTRG | The company is restructuring to regularize its post-listing status on The NSE |
| 4 | West African Glass Industries Plc | RESTRG | The company is restructuring to regularize its post-listing status on The NSE |
| 5 | Jos International Breweries Plc | RESTRG | The company is restructuring to regularize its post-listing status on The NSE |
| 6 | Golden Guinea Breweries Plc | RESTRG | The company is restructuring to regularize its post-listing status on The NSE |
| 7 | Stokvis Nigeria Plc | RESTRG | The company is restructuring to regularize its post-listing status on The NSE |
| 8 | Nigerian Sewing Machine Plc | RESTRG | The company is restructuring to regularize its post-listing status on The NSE |
| 9 | Capital Oil Plc | RESTRG | The company is restructuring to regularize its post-listing status on The NSE |
| 10 | Aluminium Manufacturing Company of Nigeria Plc | RESTRG | The company is restructuring to regularize its post-listing status on The NSE |
| 11 | Premier Breweries Plc. | RESTRG | The company is restructuring to regularize its post-listing status on The NSE |

# DISCLOSURE VIOLATIONS:

# UNAUTHORISED PUBLICATIONS & NON- DISCLOSURE OF MATERIAL INFORMATION

Every listed company is required to provide The Exchange with timely information to enable it efficiently perform its function of maintaining an orderly market. In accordance with the provisions of Appendix 111 of the Listing Rules, quoted companies are required to obtain prior written approval from The Exchange before publications that affect shareholders' interest are made in the media. In addition, companies are also required to disclose material information to The Exchange and publish some of that information in their Annual Reports.

The companies listed in schedules six and seven breached these provisions of the Listing Rules and were sanctioned accordingly. The Exchange applied the sanctions prescribed in Rules and the companies have discharged their financial obligations.

## SCHEDULE SIX

| **PUBLICATION WITHOUT NSE'S PRIOR WRITTEN APPROVAL IN 2013** | | | |
|---|---|---|---|
| | **NAME OF COMPANIES** | **PENALTY (₦)** | **NATURE OF PUBLICATION** |
| **1** | **Custodian and Allied Insurance Plc** | **661,500.00** | **Notice of Court Ordered Meeting** |
| **2** | **Crusader Insurance Plc** | **472,500.00** | **Notice of Court Ordered Meeting** |
| **3** | **Wapic Insurance Plc** | **496,125.00** | **Appointment of Directors** |
| **4** | **Honeywell Plc.** | **1,260,000** | **Unauthorized Publication of EGM** |
| **NON- DISCLOSURE OF INFORMATION** | | | |
| | **NAME OF COMPANIES** | **PENALTY (₦)** | **NATURE OF PUBLICATION** |
| **1** | **Julius Berger Nigeria Plc** | **1,470,000.00** | **Non-disclosure of the Substantial shareholding of Oasis Petroleum Company Limited in the 2011 Annual Reports and Account. Oasis Petroleum Company Limited holds 9.8% of Julius Berger shares.** |

## SCHEDULE SEVEN

| **PUBLICATION WITHOUT NSE'S PRIOR WRITTEN APPROVAL IN 2012** | | | |
|---|---|---|---|
| **S/NO** | **NAME OF COMPANIES** | **PENALTY (₦)** | **NATURE OF PUBLICATION** |
| **1** | **Multiverse Plc** | **496,125.00** | **Appointment of Directors** |
| **2** | **Unity Bank Plc** | **1,543,500.00** | **Notice of Divestment of Holdings of Unity Bank Plc from its non-banking subsidiaries** |
| **3** | **First Bank of Nigeria Plc** | **2,100,000.00** | **Notice of Extra-Ordinary General Meeting** |
| **4** | **Costain (W.A) Plc** | **575,505.00** | **Appointment of External Auditor** |

## SANCTIONS FOR DEFAULT FILINGS OF FINANCIAL STATEMENTS

The information published in schedules eight and nine are the list of companies that filed their 2011 and 2012 Financial Statements after the regulatory due date. The Exchange applied sanctions in accordance with the provisions of Section 14 of Appendix 111 of the Listing Rules.

### SCHEDULE EIGHT: DEFAULT FILINGS

| DEFAULT FILINGS IN 2013 | | | | |
|---|---|---|---|---|
| **S/NO** | **NAME OF COMPANIES** | **PENALTY (₦)** | **ACCOUNTS** | **FISCAL YEAR** |
| 1 | International Energy Insurance Plc | 3,800,000.00 | Audited | December 2011 |
| 2 | Mutual Benefits Assurance Plc | 3,000,000.00 | Audited | December 2011 |
| 3 | Costain (West Africa) Plc | 3,600,000.00 | Audited | March 2012 |

| DEFAULT FILINGS IN 2012 | | | | |
|---|---|---|---|---|
| **S/NO** | **NAME OF COMPANIES** | **PENALTY (₦)** | **ACCOUNTS** | **FISCAL YEAR** |
| 1 | C & I Leasing Plc | 1,050,000.00 | Audited | January 2012 |
| 2 | Costain (W.A) Plc | 2,850,000.00 | Audited | March 2011 |
| 3 | John Holt Plc | 1,700,000.00 | Audited | September 2011 |
| 4 | Eterna Plc | 100,000.00 | Audited | December 2011 |
| 5 | FTN Cocoa Plc | 200,000.00 | Audited | December 2011 |
| 6 | Dangote Flour Mills Plc | 400,000.00 | Audited | December 2011 |
| 7 | Regency Alliance Insurance Plc | 500,000.00 | Audited | December 2011 |
| 8 | Oando Plc | 500,000.00 | Audited | December 2011 |
| 9 | Premier Paints Plc | 700,000.00 | Audited | December 2011 |
| 10 | Scoa Nigeria Plc | 800,000.00 | Audited | December 2011 |
| 11 | Universal Insurance Plc | 900,000.00 | Audited | December 2011 |
| 12 | Union Bank Plc | 900,000.00 | Audited | December 2011 |
| 13 | Royal Exchange Plc | 900,000.00 | Audited | December 2011 |
| 14 | Crusader Nigeria Plc | 800,000.00 | Audited | December 2011 |
| 15 | Niger Insurance Plc | 900,000.00 | Audited | December 2011 |
| 16 | Unity Kapital Assurance Plc | 900,000.00 | Audited | December 2011 |
| 17 | Conoil Plc | 1,200,000.00 | Audited | December 2011 |
| 18 | Cornerstone Insurance Plc | 1,500,000.00 | Audited | December 2011 |
| 19 | Linkage Assurance Plc | 3,300,000.00 | Audited | December 2011 |
| 20 | Guinea Insurance Plc | 2,700,000.00 | Audited | December 2011 |
| 21 | The Tourist Company of Nigeria Plc | 100,000.00 | Audited | December 2011 |
| 22 | Wema Bank Plc | 2,700,000.00 | Audited | December 2011 |
| 23 | IPWA Plc | 2,700,000.00 | Audited | December 2011 |
| 24 | Unic Insurance Plc | 2,800,000.00 | Audited | December 2011 |

| | | | | |
|---|---|---|---|---|
| 25 | Equity Assurance Plc | 3,000,000.00 | Audited | December 2011 |
| 26 | Standard Alliance Plc | 3,000,000.00 | Audited | December 2011 |
| 27 | Great Nigeria Insurance Plc | 3,000,000.00 | Audited | December 2011 |
| 28 | African Alliance Insurance Plc | 3,000,000.00 | Audited | December 2011 |
| 29 | STACO Plc | 3,400,000.00 | Audited | December 2011 |
| 30 | Ikeja Hotel Plc | 3,400,000.00 | Audited | December 2011 |
| 31 | DAAR Communication Plc | 3,400,000.00 | Audited | December 2011 |

## FREE FLOAT DEFICIENCIES

Companies listed on The Exchange must maintain a minimum free float for the set standards under which they are listed in order to ensure that there is an orderly and liquid market in their securities. The free float requirement for companies on the Main Board is 20% and 15% for ASEM companies.

The Exchange has identified five companies that have free float deficiencies. These companies applied for waivers from the Quotations Committee of Management specifically provided compliance plans with tentative timelines to support their requests.

The Quotations Committee of Management considered and approved an extended timeframe for the companies to regain compliance with the listing requirement. The companies are however required to also provide quarterly disclosure reports to The Exchange detailing their level of implementation of the compliance plans.

The names of the companies in this category are contained in schedule nine.



## SCHEDULE NINE

| COMPANIES WITH FREE FLOAT DEFICIENCIES | | |
|---|---|---|
| ISSUER | % OF FREELOAT | COMPLIANCE DUE DATE |
| The Tourist Company of Nigeria Plc | 1.31 | February 28,2013 |
| Dangote Cement Plc | 5.11 | October 26, 2014 |
| Union Bank of Nigeria Plc | 14.00 | June 30, 2017 |

## TRANSPARENCY DISCLOSURES: APPLICATIONS APPROVED

The Quotations Committee of Management considered and approved the following Applications but the instruments are yet to be listed on the Daily Official List.

## SCHEDULE TEN

### 2013 APPROVALS

| APPLICATIONS APPROVED BY QCM ON APRIL 26, 2013 | | | |
|---|---|---|---|
| **ISSUER** | **CAPITAL RAISING METHOD** | **STOCK BROKER** | **ISSUING HOUSE** |
| **RIGHTS ISSUE** | | | |
| **Wapic Insurance Plc** | Rights Offer of 6,350,518,383 Ordinary Shares of 50k Each at N0.55 per Share | Marina Securities Stockbroking Services Ltd, BGL Securities Ltd | BGL Plc, Marina Securities Ltd |
| **HYBRID OFFER** | | | |
| **Resort Savings and Loans Plc** | IPO of 3,160,218,169 Ordinary Shares of 50k Each at 51k per Share and a Rights Issue of 3,776,577,416 Ordinary Shares of 50k Each at 50k per Share | Greenwich Securities Ltd, Capital Assets Ltd, Dunbell Securities Ltd, Dunn Loren Merrifield Securities Ltd, Imperial Assets Managers Ltd, Resort Securities & Trust Ltd, Trust Yields Securities Ltd | Greenwich Trust Ltd |

| APPLICATIONS APPROVED BY QCM ON MARCH 25, 2013 | | | |
|---|---|---|---|
| **ISSUER** | **CAPITAL RAISING METHOD** | **STOCK BROKER** | **ISSUING HOUSE** |
| **MERGER AND ACQUISITION** | | | |
| **Flour Mills of Nigeria Plc** | Scheme of Merger between Flour Mills of Nigeria Plc and Niger Mills Company Limited | Chapel Hill Denham Securities Limited | Chapel Hill Advisory Partners Ltd |
| **Cadbury Nigeria Plc** | Scheme of Merger between Cadbury Nigeria Plc and Stanmark Cocoa Processing Company Limited | Stanbic IBTC Stockbrokers Limited | Stanbic IBTC Bank Plc |

| PLACING | | | |
|---|---|---|---|
| **Wema Bank Plc** | Special Placing and listing of 23,333,333,334 ordinary shares of 50 kobo each at N1.50 per share | Global Asset Management (Nig.) Ltd; GTI Securities Ltd | Nigerian Stockbrokers Limited; Independent Securities Limited |

## APPROVED IN 2012 BUT YET TO BE LISTED

| APPLICATIONS APPROVED ON DECEMBER 19, 2012 | | | |
|---|---|---|---|
| **ISSUER** | **CAPITAL RAISING METHOD** | **STOCKBROKERS** | **ISSUING HOUSE** |
| **RESTRUCTURING :HOLDING COMPANY** | | | |
| **First City Monument Bank Plc** | Scheme of Arrangement Between FCMB Plc and the holders of its fully paid ordinary shares of 50 kobo each | CSL Stockbrokers Limited | FCMB Capital Markets Limited |
| **RIGHTS ISSUE** | | | |
| **Oando Plc** | Rights Issue of 4,548,236,276 ordinary shares of 50 kobo each at N12.00 per share | Vetiva Securities Limited | Vetiva Capital Management Limited; FBN Capital Limited; and FCMB Capital Markets Limited |



| APPLICATIONS APPROVED ON NOVEMBER 1, 2012 | | | |
|---|---|---|---|
| **ISSUER** | **CAPITAL RAISING METHOD** | **STOCKBROKERS** | **ISSUING HOUSE** |
| **FUND** | | | |
| **VNSE-30 INDEX SECURITIES** | Offer for Subscription of 100,000,000 Units of VNSE-30 Index Securities | Cashcraft Asset Management Limited | Cordros Capital Limited |
| **RIGHTS ISSUE** | | | |
| **Prestige Assurance Plc** | Rights Issue of 2,508,315,438 Ordinary Shares of 50k each at N0.50 per Share | Imperial Asset Managers Limited | Nigerian Stockbrokers Limited, Sterling Capital Markets Limited |
| **APPROVED APPLICATIONS AS AT SEPTEMBER 28, 2012** | | | |

| ISSUER | CAPITAL RAISING METHOD | STOCKBROKERS | ISSUING HOUSE |
|---|---|---|---|
| **INITIAL PUBLIC OFFERING** | | | |
| **UACN Property Development Company Plc Real Estate Investment Trust (REIT)** | Initial Public Offering of 3,000,000,000 units of N10.00 each at par in the UPDC Real Estate Investment Company (REIT) | Stanbic IBTC Stockbrokers Limited | Stanbic IBTC Bank Plc |
| **PLACING** | | | |
| **Ecobank Transnational Incorporated (ETI)** | Special Placing of 3,125,000,000 ordinary shares of 0.25 cent at N12.86 per share in favour of Public Investment Corporation on behalf of Government Employee Pension Fund of South Africa | EDC Securities Limited | Renaissance Capital Limited |
| **RIGHTS ISSUES** | | | |
| **Aso Savings Loans Plc** | Rights Issue of 11,046,189,224 ordinary shares of 50k each at 60k per share | Apt Securities Fund Limited | Chapel Hill Advisory Partners Limited |
| **African Paints Nigeria Plc** | Rights Issue of 130,000,000 ordinary shares of 50k each at N1.25 per share | Chapel Hill Denham Securities Limited | Chapel Hill Advisory Partners Limited |
| **MERGERS** | | | |
| **Cornerstone Insurance Plc (aborted)** | Scheme of Merger between Cornerstone Insurance Plc and Linkage Insurance Plc | CSL Stockbrokers Limited | FCMB Capital Market Limited |

| 2013/2012 NEW LISTINGS | | | | |
|---|---|---|---|---|
| **COMPANY** | **DATE LISTED** | **VALUE (N)** | **SHARES ADDED (VOLUME)** | **DESCRIPTION** |
| **Africa Prudential Registrars Plc** | 11/01/2013 | Not Applicable | 1,000,000,000 | Listing Introduction |
| **UBA Capital Plc** | 11/01/2013 | Not Applicable | 4,000,000,000 | Listing Introduction |
| **Linkage Insurance** | 18/01/2013 | Not Applicable | 2,897,207,843 | Placing |
| **Wapic Insurance Plc** | 28/01/2013 | Not Applicable | 2,911,954,418 | List of Scheme Shares |
| **Lagos State Government** | 01/02/2013 | 80,000,000,000 | Not Applicable | Government Bond |
| **Guinness Nigeria Plc** | 08/02/2013 | Not Applicable | 30,962,669 | Bonus |
| **Gombe State Bond** | 11/02/2013 | 20,000,000,000 | Not Applicable | Government Bond |
| **Crusader (Nigeria) Plc Zero Coupon Convertible Bond** | 15/02/2013 | Not Applicable | 3,064,686,154 | Conversion of Bond |
| **International Finance Corporation** | 26/03/2013 | 12,000,000,000 | Not Applicable | Supranational Bond |
| **Guinea Insurance Plc** | 28/03/2013 | | 740,000,000 | Placing |
| **Flour Mills of Nigeria Plc** | 11/04/2013 | Not Applicable | 50,893,281 | Merger |
| **C & I Leasing Plc** | 15/04/2013 | 940,000,000 | Not Applicable | Corporate Bond |
| **Rak Unity Petroluem Company Plc** | 17/04/2013 | Not Applicable | 43,051,159 | Placing |
| **Osun State Government** | 23/04/2013 | 30,000,000,000 | Not Applicable | Government Bond |
| **Livestock Feeds Plc** | 25/04/2013 | Not Applicable | 800,000,000 | Placing |
| **Custodian and Allied Insurance Plc** | 13/05/2013 | Not Applicable | 781,017,387 | Merger |
| **BOC Gases Nigeria Plc** | 14/05/2013 | Not Applicable | 23,124,706 | Bonus |
| **The Okomu Oil Palm Plc** | 14/05/2013 | Not Applicable | 476,955,000 | Bonus |
| **UBA Plc 2nd Tranche** | 01/05/2012 | 35,000,000,000 | Not Applicable | Corporate Bond |
| **Tower Funding Plc Tranche A** | 09/02/2012 | 3,630,000,000 | Not Applicable | Corporate Bond |
| **Tower Funding Plc Tranche B** | 09/02/2012 | 1,000,000,000 | Not Applicable | Corporate Bond |
| **Austin Laz & Co. Plc** | 29/2/2012 | Not Applicable | 1,079,860,000 | Listing By Introduction |
| **Lafarge Wapco's Plc** | 5/3/2012 | 11,880,000,000 | Not Applicable | Corporate Bond |
| **IHS Plc Preference Shares Series Ii** | 8/3/2012 | 2,791,454,545 | Not Applicable | Preference Shares |
| **Ekiti State Government** | 13/3/2012 | 20,000,000,000 | Not Applicable | Government Bond |

| | | | | |
|---|---|---|---|---|
| **Chellarams Plc** | 20/3/2012 | 540,000,000 | Not Applicable | Corporate Bond |
| **Benue State Government** | 27/3/2012 | 13,000,000,000 | Not Applicable | Government. Bond |
| **Crusader Nigeria Plc Zero Coupon (Bond)** | 14/620/12 | 1,838,811,700 | N/A | Corporate Bond |
| **Fortis Microfinance Bank Plc** | 20/6/2012 | Not Applicable | 1,630,091,000 | Listing By Introduction |
| **Oasis Insurance Plc** | 25/01/2012 | Not Applicable | 1,500,000,000 | Special Placing |
| **Flour Mills of Nigeria Plc** | 6/3/2012 | Not Applicable | 455,566,222 | Rights |
| **Starcomms Plc** | 12/3/2012 | Not Applicable | 208,654,433 | Staff Incentive Scheme |
| **Neimeth International Pharmaceuticals Plc** | 16/3/2012 | Not Applicable | 482,318,637 | Rights Issue |
| **Access Bank Plc** | 20/3/2012 | Not Applicable | 5,000,000,000 | Merger |
| **Union Bank of Nigeria Plc** | 11/4/2012 | Not Applicable | 14,402,681,471 | Placing |
| **Poly Products Plc** | 16/4/2012 | Not Applicable | 10,000,000 | Bonus Issue |
| **Afromedia Plc** | 20/4/2012 | Not Applicable | 403,549,726 | Bonus Issue |
| **FCMB Plc** | 23/4/2012 | Not Applicable | 2,440,678,830 | Bonus Issue |
| **UBA Plc** | 2/5/2012 | Not Applicable | 646,693,873 | Bonus Issue |
| **Mobil Oil Plc** | 2/5/2012 | Not Applicable | 60,099,210 | Bonus Issue |
| **Dangote Cement Plc** | 14/5/2012 | Not Applicable | 1,549,137,037 | Bonus Issue |
| **Nahco Plc** | 14/5/2012 | Not Applicable | 246,093,750 | Bonus Issue |
| **Rt Briscoe Plc** | 16/05/2012 | Not Applicable | 196,059,480 | Bonus Issue |
| **Unity Bank Plc** | 5/06/2012 | Not Applicable | 3,495,153,610 | Bonus Issue |
| **International Breweries Plc** | 11/06/2012 | Not Applicable | 1,149,611,749 | Rights Issue |
| **Ecobank Transnational Inc** | 20/07/2012 | Not Applicable | 401,259,881 | Merger |
| **Unity Kapital Assurance Plc** | 25/07/2012 | Not Applicable | 866,666,666 | Bonus Issue |
| **Niger Insurance Plc** | 27/07/2012 | Not Applicable | 2,677,079,286 | Rights Issue |
| **Nigerian Breweries Plc** | 15/08/2012 | Not Applicable | 142,092 | Merger |
| **Premier Paints Plc** | 15/08/2012 | Not Applicable | 48,000,000 | Special Placing |
| **Vono Products Plc** | 7/09/2012 | Not Applicable | 263,651,183 | Rights Issue |
| **Studio Press Nigeria Plc** | 24/10/2012 | Not Applicable | 252,104,285 | Special Placing |

| | | | | |
|---|---|---|---|---|
| **Stanbic IBTC Holding Plc** | 23/11/2012 | Not Applicable | 10,000,000,000 | Listing by Introduction |
| **FBN Holdings Plc** | 26/11/2012 | Not Applicable | 32,632,084,357 | Listing |
| **FBN Money Market Fund** | 24/12/2012 | 1,798,440,000 | Not Applicable | Memorandum Listing |
| **FBN Fixed Income Fund** | 24/12/2012 | 1,752,200,000 | Not Applicable | Memorandum Listing |

| **2013/2012 DELISTED ENTITIES/SECURITIES** | |
|---|---|
| **NAME OF ENTITY** | **DATE DELISTED** |
| **Crusader (Nigeria) Plc - Zero Coupon Convertible Bond.** | 15/02/2013 |
| **Northern Bag Manufacturing Company Ltd** | 11/04/2013 |
| **Finbank Preference Shares** | 09/02/2012 |
| **Stanbic IBTC Bank Plc** | 23/11/2012 |
| **Ecobank Nigeria Plc** | 20/7/2012 |
| **First Bank of Nigeria Plc** | 26/11/2012 |
| **Hallmark Paper Products Plc** | 19/12/2012 |
| **Udeofson Garment Factory** | 19/12/2012 |
| **Abplast Products Plc** | 19/12/2012 |

| **TENDER OFFERS** | | | |
|---|---|---|---|
| **Guaranty Trust Assurance Plc** | Tender Offer for the Acquisition of Additional 732,405,689 ordinary shares of 50kobo each at N1.76 per share in Guaranty Trust Assurance Plc | Readings Investments Limited | Not Applicable |
| **Assur Africa Holding (AAH)** | Tender Offer for the Acquisition of additional 732,405,689 ordinary shares of 50kobo each at N1.76 per share in Guaranty Trust Assurance Plc | Readings Investments Limited | Not Applicable |
| **BLOCK DIVESTMENT/ACQUISITIONS** | | | |
| **Skye Bank Plc** | Block Divestment of 1,785,627,772 ordinary shares of 50kobo each of Law Union & Rock Insurance Plc by Skye Bank Plc | Skye Stockbrokers Ltd | Not Applicable |
| **Dangote Flour Mills Plc** | Proposed Acquisition of 3,167,716,667 Ordinary Shares of 50 kobo each representing 63.35% equity stake in Dangote Flourmills Plc (held by Dangote Industries Limited) by Tiger Brand Limited | Vetiva Securities Limited | Not Applicable |

**MEETINGS FOR THE MONTH OF AUGUST 2013**

| | | | | | |
|---|---|---|---|---|---|
| 1 | **Aluminium Extrusion** | Protea Hotel, Ikeja | August 2, 2013 | 11.00 a.m. | AGM |
| 2 | **MRS Oil Nigeria** | Federal Palace Hotel, VI | August 14, 2013 | 11.00 a.m. | AGM |

**MEETINGS FOR THE MONTH OF JULY 2013**

| | | | | | |
|---|---|---|---|---|---|
| 1 | **R.T. Briscoe** | Lagos Sheraton Hotel, Ikeja | July 1, 2013 | 10.00 a.m. | AGM |
| 2 | **A.G. Leventis** | Mainland Hotel, Ebute-Meta | July 2, 2013 | 12.00 noon | AGM |
| 3 | **Beta Glass** | Mainland Hotel, Ebute-Meta | July 3, 2013 | 12.00 noon | AGM |
| 4 | **Presco** | The Dura Club, Obaretin Estate, Benin/Sapele Rd | July 18, 2013 | 11.00 a.m. | AGM |
| 5 | **Trans-Nationwide Express** | Airport Hotel, Ikeja, Lagos | July 25, 2013 | 11.00 a.m. | AGM |

**MEETINGS FOR THE MONTH OF JUNE 2013**

| | | | | | |
|---|---|---|---|---|---|
| 1 | **The Okomu Oil Palm** | Transcorp Hilton, Abuja | June 5, 2013 | 9.00 a.m. | AGM |
| 2 | **International Energy Insurance** | LeMeridien Ibom Hotel & Golf Resort, Uyo | June 5, 2013 | 11.00 a.m. | AGM |
| 3 | **eTransact** | Ocean View Restaurants, Adetokunbo Ademola VI | June 6, 2013 | 11.00 a.m. | AGM |
| 4 | **NASCON** | MUSON Centre, Onikan, Lagos | June 6, 2013 | 12.00 noon | AGM |
| 5 | **UBA** | Transcorp Hilton, Abuja | June 7, 2013 | 10.00 a.m. | AGM |
| 6 | **BOC Gases** | Lagos Airport Hotel, Ikeja | June 13,2013 | 11.00 a.m. | AGM |
| 7 | **Champion Brew (2 years AGM)** | National Theatre, Iganmu | June 13,2013 | 12.00 & 2.00 p.m. | AGM |
| 8 | **Total Nigeria** | MUSON Centre, Onikan Lagos | June 14,2013 | 11.00 a.m. | AGM |
| 9 | **Adswitch** | Conv-Aj Events Ltd | June 14,2013 | 9.30 a.m. | AGM |
| 10 | **Union Bank** | Tinapa Lakeside Hotel, Calabar | June 18,2013 | 11.00 a.m. | AGM |
| 11 | **FCMB** | MUSON Centre, Onikan Lagos | June 19,2013 | | AGM |
| 12 | **Julius Berger** | Shehu Musa Yar' Adua Centre, Abuja | June 20,2013 | 11.00 a.m. | AGM |
| 13 | **ETI** | Lome, Togo | June 20,2013 | 10.30 a.m | AGM |
| 14 | **Nigerian Ropes** | Mainland Hotel, Oyingbo | June 21,2013 | 11.00 a.m. | AGM |

| | | | | | |
|---|---|---|---|---|---|
| 15 | **CAP** | Golden Tulip Hotel, Festac | June 24,2013 | 11.00 a.m. | AGM |
| 16 | **UACN** | Golden Tulip Hotel, Festac | June 26,2013 | | AGM |
| 17 | **Tantalizers** | Golden Tulip Hotel, Festac | June 26,2013 | 11.00 a.m. | AGM |
| 18 | **Airline Services & Logistics** | Golden Tulip Hotel, Festac | June 27,2013 | 12.00 noon | AGM |
| 19 | **Ashaka Cement** | Zaranda Hotel, Bauchi | June 27,2013 | 11.00 a.m. | AGM |
| 20 | **NPF Microfinance** | | June 27,2013 | | AGM |

**MEETINGS FOR THE MONTH OF MAY 2013**

| | | | | | |
|---|---|---|---|---|---|
| 1 | **Sterling Bank** | Eko Hotel, VI | May 2, 2013 | 11.00 a.m. | AGM |
| 2 | **Cadbury** | Civic Centre, Victoria Island, Lagos | May 8, 2013 | 10.00 a.m. | AGM |
| 3 | **Nestle Nigeria** | MUSON Centre, Onikan | May 9, 2013 | 11.00 a.m. | AGM |
| 4 | **Dangote Sugar** | Eko Hotel, VI Lagos | May 13, 2013 | 11.00 a.m. | AGM |
| 5 | **Berger Paints** | Transcorp Hilton, Abuja | May 14, 2013 | 11.00 a.m. | AGM |
| 6 | **Costain** | Mainland Hotel, Oyingbo | May 14, 2013 | 10.00 a.m. | AGM |
| 7 | **Nigerian Breweries** | MUSON Centre, Onikan, Lagos | May 15, 2013 | 10.00 a.m. | AGM |
| 8 | **First Aluminium** | Airport Hotel, Ikeja | May 15, 2013 | 11.00 a.m. | AGM |
| 9 | **Unilever** | MUSON Centre, Onikan Lagos | May 16, 2013 | 10.00 a.m. | AGM |
| 10 | **Fidelity Bank** | Transcorp Hilton, Abuja | May 21, 2013 | 11.00 a.m. | AGM |
| 11 | **Skye Bank** | Lagos Oriental Hotel, VI | May 22, 2013 | 11.00 a.m. | AGM |
| 12 | **GSK** | City Hall, Lagos Island | May 23, 2013 | 11.00 a.m. | AGM |
| 13 | **Paints & Coatings** | Aries suites Plot 12, Osborne Foreshore Estate, Ikoyi, Lagos | May 23, 2013 | 11.00 a.m. | AGM |
| 14 | **Dangote Cement** | Trancorp Hilton, Abuja | May 23, 2013 | | AGM |

| | | | | | |
|---|---|---|---|---|---|
| 15 | **Mansard Plc** | Oriental Hotel, Lekki Rd, VI | May 23, 2013 | 10.00 a.m. | |
| 16 | **Lafarge Wapco** | City Hall, Onikan Lagos | May 28, 2013 | 11.00 a.m. | AGM |
| 17 | **Livestock Feeds** | Golden Tulip, Amuwo Odofin | May 28, 2013 | 11.00 a.m. | AGM |
| 18 | **Mobil Oil** | Muson Center | May 28, 2013 | 11.00 a.m. | AGM |
| 19 | **Learn Africa** | Lagos Airport, Ikeja Lagos | May 30, 2013 | 11.00 a.m. | AGM |
| 20 | **Chams Plc** | Sheraton Hotels, Ikeja | May 30, 2013 | 11.00 a.m. | AGM |
| 21 | **FBN** | Eko Hotel | May 31, 2013 | 10.00 a.m. | AGM |

**THE FOLLOWING MEETINGS HELD IN JANUARY 2013**

| S/N | COMPANY | VENUE | DATE | TIME | TYPE OF MEETING |
|---|---|---|---|---|---|
| 1 | **Custodian & Allied Insurance Plc.** | Golden Gate Restaurant, Glover Road, Ikoyi | January 8, 2013 | 11:00 A.M. | Court Ordered Meeting |
| 2 | **Crusader Insurance Plc** | Golden Gate Restaurant, Glover Road, Ikoyi | January 8, 2013 | 11.00 A.M. | Court Ordered Meeting |
| 3 | **FTN Cocoa Plc** | Lagos Chamber of Commerce Conference & Exhibition Centre, Alausa, Lagos | January 10, 2013 | 11:00 A.M. | AGM |
| 4 | **Cadbury Nigeria Plc** | Borno Rivers Room, Transcorp Hilton Hotel, Abuja | January 30,2013 | 12:00 P.M. | Court Ordered Meeting |
| 5 | **Transcorp Incorporated Plc** | Lantana Hall, Eko Hotel & Suites, Victoria Island, Lagos | January 30, 2012 | 11:00 A.M. | Court Ordered Meeting |

| | | | | | |
|---|---|---|---|---|---|
| 6 | **Dn Tyre & Rubber (Adjourned)** | Plot 23 Oba Akran Avenue, Ikeja | January 31, 2013 | 11:00 A.M. | AGM |
| 7 | **Staco Insurance Plc** | Grand Inn & Suites, 3 Stadium Road GRA Ijebu Ode | January 31, 2013 | 11:00 A.M. | AGM |

**THE FOLLOWING MEETINGS HELD IN FEBRUARY 2013**

| | | | | | |
|---|---|---|---|---|---|
| **1** | **SIM Capital Alliance Fund** | Board Room, C&C Towers(8th Floor) Plot 1684 Sanusi Fafunwa Street, Victoria Island | February 5, 2013 | 11:00 A.M. | AGM |
| **2** | **UACN Property Development Company Plc** | Golden Tulip, Festac | February 7, 2013 | 11:00 A.M. | Completion Board Meeting |
| **3** | **FBN Money Market Fund** | Victoria Crown Plaza Hotel, Victoria island | February 7, 2013 | 10:00 A.M. | EGM |
| **4** | **FBN Fixed Income Fund** | Victoria Crown Plaza Hotel, Victoria island | February 7, 2013 | 11:00 A.M. | EGM |
| **5** | **FBN Heritage Fund** | Victoria Crown Plaza Hotel, Victoria island | February 7, 2013 | 12:00 P.M. | EGM |
| **6** | **Flour Mills of Nigeria Plc.** | Jasmine Hall, Eko Hotel & Suite, Victoria Island | February 19, 2013 | 10:00 A.M. | Court-Ordered Meeting |
| **7** | **Bagco Nigeria Plc** | Jasmine Hall, Eko Hotel & Suite, Victoria Island | February 19, 2013 | 2:00 P.M. | Court-Ordered Meeting |

| | | | | | |
|---|---|---|---|---|---|
| **8** | **Flour Mill/Niger Mills of Nigeria Plc** | Zinia Hall, Eko Hotel & Suites | February 20, 2013 | 10:00 A.M. | Court Ordered Meeting |
| **9** | **Nigerian Breweries Plc** | Not Applicable | February 20, 2013 | Not Applicable | Board Meeting |
| **10** | **Premier Breweries Plc** | Office Complex, Industrial Layout, Head Bridge, Onitsha, Anambra State | February 27 ,2013 | 2.00 P.M. | AGM |
| **12** | **Honeywell Plc** | Lagoon Restaurant, Victoria Island | February 28, 2013 | 12.00 noon | AGM |

**THE FOLLOWING MEETINGS HELD IN MARCH 2013**

| | | | | | |
|---|---|---|---|---|---|
| 1 | **Vitafoam Nigeria Plc.** | Lagos Sheraton Hotel, Ikeja | March 7, 2013 | 10:00 A.M | AGM |
| 2 | **New Gold Issuer Limited** | ABSA Capital, 15 Alice Lane, Sandton, Johannesburg, 2196 | March 1, 2013 | 11.00 A.M. | EGM |
| 3 | **Abbey Building Society Plc.** | Not Applicable | March 6, 2013 | Not Applicable | Board Meeting |
| 4 | **Diamond Bank Plc** | Boardroom at PGDs Place, Plot 4, Block 5, BIS Way, off Lekki Expressway, Lagos | March 7, 2013 | 10.00 A.M. | Board Meeting |
| 5 | **Daar Communications Plc** | Daar Communication Office, Ladi Lawal Drive, Off T.Y. Danjuma Street, Asokoro, Abuja | March 21, 2013 | 12.00 P.M. | AGM |

| | | | | | |
|---|---|---|---|---|---|
| 6 | **Transcorp** | Lagos Oriental, Hotel Lekki | March 28, 2013 | 10.00 a.m. | (EGM) |
| 7 | **Legacy Equity Fund** | Otunba Tunwase National Pediatric Centre, Shagamu-Benin Road | March 14, 2013 | 11.00am | AGM |
| 8 | **I H S Plc** | Eko Hotel, Victoria Island | March 21, 2013 | Not yet available | AGM |
| 9 | **Ikeja Hotel** | Sheraton Lagos Hotel, Ikeja | March 26, 2013 | 12.00 P.M. | AGM |
| 10 | **Neimeth International Pharmaceuticals Plc** | Not yet available | March 27, 2013 | Not yet available | AGM |
| 11 | **Transnational Corporation of Nigeria Plc** | Lagos Oriental, Hotel Lekki | March 28, 2013 | 10.00 a.m. | EGM |



**THE FOLLOWING MEETINGS HELD IN APRIL 2013**

| | | | | | |
|---|---|---|---|---|---|
| **1** | **Capital Oil Plc.** | Hotel Fidelna, 55 Ezillo Street, Independence Layout, Enugu State. | April 4, 2013 | 10.00 A.M | AGM |
| **2** | **Greif Nigeria Plc** | Rockview Hotel, Park Lane, Apapa | April 16, 2013 | 11.00 a.m. | AGM |
| **3** | **Zenith Bank Plc** | Civic Centre,VI | April 24, 2013 | 10.00 a.m. | AGM |
| **4** | **GT Bank Plc** | Eko Hotel, VI | April 25, 2013 | 10.00 a.m. | AGM |
| **5** | **Access Bank Plc** | Oriental Hotel, Lekki Road, VI | April 25, 2013 | 10.00 a.m. | AGM |

| | | | | | |
|---|---|---|---|---|---|
| **6** | **Pharma Deko Plc** | Pharma-Deko Plant, Agbara Industrial Estate, Agbara | April 25, 2013 | 12.00 noon | AGM |
| **7** | **Interlinked Technologies Plc** | Airport Hotel, Ikeja, Lagos | April 30, 2013 | 11.00 a.m. | AGM |
| **8** | **Diamond Bank Plc** | Civic Centre, VI | April 30, 2013 | 10.00 a.m. | AGM |

# X – COMPLIANCE REPORT

REPORT DATE: March 07, 2014

X-Compliance report is a transparency initiative of The Exchange which is designed to maintain market integrity and protect the investors by providing compliance related information on all listed companies.

Companies that are listed on The Exchange are required to adhere to high disclosure standards which are prescribed in Appendix 111 of the Listing Rules. Financial information which is periodic disclosure and on-going material events disclosure should be released to The Exchange in a timely manner to enable it efficiently perform its function of maintaining an orderly market.

THE X-COMPLIANCE REPORT PROVIDES INFORMATION ON:

- Released Financials
- Early Filers of Audited Accounts
- Companies that breached Listings Rules
- Delinquent Filers of Audited Accounts
- Delinquent Filers of Quarterly Reports
- Companies that are Operating Below Listing Standards
- Companies with Free-Float Deficiencies
- Enforcement Actions against Companies
- Companies slated for Delisting
- Application for New Listings
- Applications approved by the Quotations Committee of Management
- Meetings of Companies

# X – COMPLIANCE REPORT

RELEASED FINANCIALS

Details of the released financials can be found on The Nigerian Stock Exchange website (www.nse.com.ng)

EARLY FILERS

Early filers are companies that file their financial statements at least two weeks before the due date.
Quoted companies on The Exchange are required to file their financial statements on a timely basis in accordance with Appendix 111 of the Listing Rules. The Exchange has identified the companies listed on Schedule One as companies that have exceeded the minimum listing standards in terms of timely disclosure of their Audited Annual and quarterly financial performance.
The Exchange is extremely proud of these companies and will continue to show case quoted companies that imbibe high corporate governance practices.

## SCHEDULE ONE

2014 AUDITED ACCOUNTS

**AUDITED**

| S/N | NAME OF COMPANY | YEAR END | DUE DATE | FILED DATE |
|---|---|---|---|---|
| 1 | Forte Oil Plc | December 31, 2013 | March 31, 2014 | January 31, 2014 |
| 2. | Nigerian Breweries Plc | December 31, 2013 | March 31, 2014 | February 13, 2014 |
| 3 | McNichols Consolidated Plc | December 31, 2013 | March 31, 2014 | February 14, 2014 |
| 4 | Africa Prudential Registrars Plc | December 31, 2013 | March 31, 2014 | February 17, 2014 |
| 5 | Nestle Nigeria Plc | December 31, 2013 | March 31, 2014 | February 26, 2014 |

DEFAULTERS (AUDITED ACCOUNTS)

The Exchange has identified the companies listed on Schedules two and three as companies that fell short of the minimum listing standards in terms of timely disclosure of their audited annual financial performance and are operating or operated Below the Listing Standards (BLS) of The Exchange in the course of the year.

The sanctions for non-compliance with periodic financial disclosure obligations are clearly spelt out in Appendix 111 of the Listing Rules and The Exchange will protect the integrity of its rules.

## SCHEDULE TWO

| BANKS AND INSURANCE COMPANIES | | | | |
|---|---|---|---|---|
| S/NO | COMPANY | YE | SYMBOL | REMARKS |
| 1. | Union Homes Savings & Loans Plc | Mar | BLS | Non Rendition of Audited Financial Statements 2012, 2013 |
| 2. | *Goldlink Insurance Plc | Dec | BLS | Regulatory Issue |
| 3. | International Energy Insurance Plc | Dec | BLS | Non Rendition of Audited Financial |

| | | | | |
|---|---|---|---|---|
| | | | | Statements 2012 |
| 4. | UNIC INSURANCE PLC | Dec | BLS | Non Rendition of Audited Financial Statements 2012 |
| 5. | Investment & Allied Assurance Plc | Dec | BLS | Regulatory Action |

*Goldlink Insurance Plc : The Exchange suspended the trading on the company's shares with effect from November 2, 2012 following the appointment of an interim management by NAICOM to oversee the affairs of the company.

## SCHEDULE THREE

| OTHER COMPANIES | | | | |
|---|---|---|---|---|
| 1. | G. Cappa Plc | Mar | BLS/Restructuring | Non Rendition of Audited Financial Statements 2011, 2012, 2013 |
| 2. | Nigerian German Chemical Plc | Mar | BLS | Non Rendition of Audited Financial Statements 2013 |
| 3. | Nigerian Wire & Cable Plc | Sept | BLS | Non Rendition of Audited Financial Statements 2011, 2012 |
| 4. | Rokanna Industries Plc | Dec | BLS/ Restructuring | Non Rendition of Audited Financial Statements 2012 |
| 5. | West African Glass Industries Plc | Dec | BLS/ Restructuring | Non Rendition of Audited Financial Statements 2011 and 2012 |
| 6. | Jos International Breweries Plc | Dec | BLS/ Restructuring | Non Rendition of Audited Financial Statements 2010, 2011, 2012 |
| 7. | Big Treat Plc | Dec | BLS | Regulatory Action |
| 8. | Mtech Communications Plc | Dec | BLS | Regulatory Action |
| 9. | Afroil Plc | Dec | BLS | Regulatory Action |
| 10. | P.S. Mandrides & Company Plc | Sep | BLS | Non Rendition of Audited Financial Statements 2012 |
| 11. | FTN Cocoa Processors Plc | Dec | BLS | Non Rendition of Audited Financial Statements 2012 |
| 12. | UTC Nigeria Plc | Dec | BLS | Non Rendition of Audited Financial Statements 2012 |
| 13. | Starcomms Plc | Dec | BLS | Non Rendition of Audited Financial Statements 2012 |
| 14. | MTI Plc | Dec | BLS | Non Rendition of Audited Financial Statements 2012 |
| 15. | IPWA Plc | Dec | BLS | Non Rendition of Audited Financial Statements 2012 |
| 16. | Beco Petroleum Product Plc | Dec | BLS | Non Rendition of Audited Financial Statements 2012 |
| 17. | Ikeja Hotel Plc | Dec | BLS | Non Rendition of Audited Financial Statements 2012 |

| | | | | |
|---|---|---|---|---|
| 18. | DAAR Communications Plc | Dec | BLS | Non Rendition of Audited Financial Statements 2012 |

## DEFAULTERS (QUARTERLY ACCOUNTS)

Quoted companies on The Exchange are required to file their quarterly accounts within 45 days after the end of the quarter in accordance with Appendix 111 of the Listing Rules. Details of the quarterly filings are listed on Schedule five and can be downloaded from the released financials on the website.

The sanctions for non-compliance with periodic financial disclosure obligations are clearly spelt out in Appendix 111 of the Listing Rules and The Exchange will protect the integrity of its rules.

### SCHEDULE FOUR

2013 INTERIM ACCOUNTS (1st QUARTER)

| S/NO | COMPANY | QTR | SYMBOL |
|---|---|---|---|
| 1. | Greif Nigeria Plc | January | BLS |
| 2. | FTN Cocoa Processors Plc | March | BLS |
| 3. | Rokana Industries Plc | March | BLS/ Restructuring |
| 4. | Smart Product Nigeria Plc | March | BLS |
| 5. | Anino International Plc | March | BLS/ Restructuring |
| 6. | Capital Oil Plc | March | BLS/ Restructuring |
| 7. | Champion Breweries Plc | March | BLS |
| 8. | UTC Nigeria Plc | March | BLS |
| 9. | Beta Glass Plc | March | BLS |
| 10. | Arbico Plc | March | BLS |
| 11. | Cappa & D'alberto Plc | March | BLS/DIP |
| 12. | Fortis Microfinance Bank Plc | March | BLS |
| 13. | Cornerstone Insurance Plc | March | BLS |
| 14. | Great Nigeria Insurance Plc | March | BLS |
| 15. | International Energy Insurance Plc | March | BLS |
| 16. | LASACO Assurance Plc | March | BLS |
| 17. | Mutual Benefit Assurance Plc | March | BLS |
| 18. | Niger Insurance Company Plc | March | BLS |
| 19. | STACO Plc | March | BLS |
| 20. | Unic Insurance Plc | March | BLS |
| 21. | Universal Insurance Company Plc | March | BLS |
| 22. | Wapic Insurance Plc | March | BLS |
| 23. | Ekocorp Plc | March | BLS |
| 24. | May & Baker Nigeria Plc | March | BLS |
| 25. | Omatek Ventures Plc | March | BLS |

| | | | |
|---|---|---|---|
| 26. | NCR (Nigeria) Plc | March | BLS |
| 27. | Starcomms Plc | March | BLS |
| 28. | African Paints (Nigeria) Plc | March | BLS |
| 29. | IPWA Plc | March | BLS |
| 30. | Nigerian Wire & Cable Plc | March | BLS |
| 31. | West Africa Glass Industries Plc | March | BLS/ Restructuring |
| 32. | Nigerian Ropes Plc | March | BLS |
| 33. | Aluminium Extrusion Nig. Plc | March | BLS |
| 34. | Eterna Plc | March | BLS |
| 35. | Beco Petroleum Product Plc | March | BLS |
| 36. | Ikeja Hotel Plc | March | BLS |
| 37. | DAAR Communications Plc | March | BLS |
| 38. | MTI Plc | March | BLS |
| 39. | Custodian & Allied Insurance Plc | March | BLS |
| 40. | Academy Press Plc | June | BLS |
| 41. | Aso Savings & Loans Plc | June | BLS |
| 42. | Costain (West Africa) Plc | June | BLS |
| 43. | G. Cappa Plc | June | BLS/ Restructuring |
| 44. | Honeywell Flour Plc | June | BLS |
| 45. | Nigerian German Chemical Plc | June | BLS |
| 46. | Premier Breweries Plc | June | BLS |
| 47. | Roads Nigeria Plc | June | BLS |
| 48. | Thomas Wyatt Nigeria Plc | June | BLS |
| 49. | Union Homes Savings & Loans Plc | June | BLS |
| 50. | Multi-Trex Integrated Foods Plc | July | BLS |
| 51. | DN Tyre & Rubber Plc | December | BLS |
| 52. | P.S. Mandrides & Company Plc | December | BLS |
| 53. | Deap Capital Management & Trust Plc | December | BLS |
| 54. | Neimeth International Pharm. Plc | December | BLS |
| 55. | Lennards (Nig) Plc | December | BLS |

| 2013 INTERIM ACCOUNTS (6 MONTHS) | | | |
|---|---|---|---|
| S/NO | COMPANY | QTR | SYMBOL |
| 1. | Rokana Industries Plc | June | BLS/ Restructuring |
| 2. | Capital Oil Plc | March | BLS |
| 3. | John Holt Plc | March | BLS |
| 4. | DEAP Capital Management & Trust Plc | March | BLS |
| 5. | Greif Nigeria Plc | April | BLS |
| 6. | West Africa Glass Industries Plc | March | BLS/ Restructuring |
| 7. | FTN Cocoa Processors Plc | June | BLS |
| 8. | Anino International Plc | June | BLS/ Restructuring |
| 9. | Smart Products Nigeria Plc | June | BLS |
| 10. | Juli Plc | June | BLS |
| 11. | Arbico Plc | June | BLS |
| 12. | UTC Nigeria Plc | June | BLS |
| 13. | P.S. Mandrides & Company Plc | June | BLS |
| 14. | Premier Breweries Plc | June | BLS |
| 15. | Golden Guinea Breweries Plc | June | BLS/ Restructuring |
| 16. | Cornerstone Insurance Plc | June | BLS |
| 17. | Fortis Microfinance Bank Plc | June | BLS |
| 18. | LASACO Assurance Plc | June | BLS |
| 19. | Niger Insurance Company Plc | June | BLS |
| 20. | Unic Insurance Plc | June | BLS |
| 21. | Wapic Insurance Plc | June | BLS |
| 22. | International Energy Insurance Plc | June | BLS |
| 23. | Great Nigeria Insurance Plc | June | BLS |
| 24. | Mutual Benefit Assurance Plc | June | BLS |
| 25. | STACO Plc | June | BLS |
| 26. | Universal Insurance Company Plc | June | BLS |
| 27. | Ekocorp Plc | June | BLS |
| 28. | Union Diagnostic & Clinical Services Plc | June | BLS |
| 29. | NCR (Nigeria) Plc | June | BLS |
| 30. | Omatek Ventures Plc | June | BLS |
| 31. | MTI Plc | June | BLS |
| 32. | E-Tranzact International Plc | June | BLS |
| 33. | African Paints (Nigeria) Plc | June | BLS |
| 34. | IPWA Plc | June | BLS |

| | | | |
|---|---|---|---|
| 35. | Starcomms Plc | June | BLS |
| 36. | Nigerian Wire & Cable Plc | June | BLS |
| 37. | Cappa & D'alberto Plc | June | BLS/DIP |
| 38. | Ikeja Hotel Plc | June | BLS |
| 39. | BECO Petroleum Product Plc | June | BLS |
| 40. | Eterna Oil & Gas Plc | June | BLS |
| 41. | DAAR Communications Plc | June | BLS |
| 42. | G. Cappa Plc | June | BLS/ Restructuring |
| 43. | Guiness Nigeria Plc | December | BLS |
| 44. | Tourist Company of Nigeria | December | BLS |
| 45. | Interlinked Technologies Plc | December | BLS |
| 46. | Lennards (Nig) Plc | December | BLS |

2013 INTERIM ACCOUNTS (9 MONTHS)

| | | | |
|---|---|---|---|
| 1. | MULTI-TREX INTEGRATED FOODS PLC | APRIL | BLS |
| 2. | GREIF NIGERIA PLC | JULY | BLS |
| 3. | DEAP CAPITAL MGT & TRUST PLC | JUNE | BLS |
| 4. | GOLDEN GUINEA BREWERIES PLC | JUNE | BLS/ Restructuring |
| 5. | JOHN HOLT PLC | JUNE | BLS |
| 6. | P.S MANDRIDES & CO PLC | JUNE | BLS |
| 7. | ASO SAVINGS LOANS PLC | MARCH | BLS |
| 8. | G. CAPPA PLC | MARCH | BLS/ Restructuring |
| 9. | NIGERIAN GERMAN CHEMICAL PLC | MARCH | BLS |
| 10. | THOMAS WYATT NIGERIA PLC | MARCH | BLS |
| 11. | UNION HOMES SAVINGS & LOANS PLC | MARCH | BLS |
| 12. | AFRICAN PAINTS (NIGERIA ) PLC | SEPTEMBER | BLS |
| 13. | ANINO INTERNATIONAL PLC | SEPTEMBER | BLS/ Restructuring |
| 14. | ARBICO PLC | SEPTEMBER | BLS |
| 15. | BECO PETROLEUM PRODUCT PLC | SEPTEMBER | BLS |
| 16. | BIG TREAT PLC | SEPTEMBER | BLS |
| 17. | CAPITAL OIL PLC | SEPTEMBER | BLS |
| 18. | CAPPA & D'ALBERTO PLC | SEPTEMBER | BLS |
| 19. | DAAR COMMUNICATIONS PLC | SEPTEMBER | BLS |
| 20. | EKOCORP PLC | SEPTEMBER | BLS |
| 21. | ETERNA OIL & GAS PLC | SEPTEMBER | BLS |
| 22. | E-TRANZACT INTERNATIONAL PLC | SEPTEMBER | BLS |
| 23. | FORTIS MICROFINANCE BANK PLC | SEPTEMBER | BLS |
| 24. | FTN COCOA PROCESSORS PLC | SEPTEMBER | BLS |
| 25. | GOLDLINK INSURANCE PLC | SEPTEMBER | BLS |
| 26. | GREAT NIGERIA INSURANCE PLC | SEPTEMBER | BLS |
| 27. | IKEJA HOTEL PLC | SEPTEMBER | BLS |

| | | | |
|---|---|---|---|
| 28. | INTERCONTINENTALWAPIC INSURANCE PLC | SEPTEMBER | BLS |
| 29. | INTERNATIONAL ENERGY INSURANCE PLC | SEPTEMBER | BLS |
| 30. | INVESTMENT & ALLIED ASSURANCE PLC | SEPTEMBER | BLS |
| 31. | IPWA PLC | SEPTEMBER | BLS |
| 32. | JULI PLC | SEPTEMBER | BLS |
| 33. | LASACO ASSURANCE PLC | SEPTEMBER | BLS |
| 34. | MTECH COMMUNICATIONS PLC | SEPTEMBER | BLS |
| 35. | MTI PLC | SEPTEMBER | BLS |
| 36. | MULTIVERSE RESOURCES PLC | SEPTEMBER | BLS |
| 37. | MUTUAL BENEFIT ASSURANCE PLC | SEPTEMBER | BLS |
| 38. | NIGER INSURANCE COMPANY PLC | SEPTEMBER | BLS |
| 39. | NIGERIAN WIRE & CABLE PLC | SEPTEMBER | BLS |
| 40. | NPF MICROFINANCE BANK PLC | SEPTEMBER | BLS |
| 41. | OANDO PLC | SEPTEMBER | BLS |
| 42. | OMATEK VENTURES PLC | SEPTEMBER | BLS |
| 43. | PAINTS AND COATINGS MANUFACTURING PLC | SEPTEMBER | BLS |
| 44. | PREMIER BREWERIES PLC | SEPTEMBER | BLS |
| 45. | PREMIER PAINTS PLC | SEPTEMBER | BLS |
| 46. | R.T BRISCOE PLC | SEPTEMBER | BLS |
| 47. | ROKANA INDUSTRIES PLC | SEPTEMBER | BLS/ Restructuring |
| 48. | SMART PRODUCTS NIGERIA PLC | SEPTEMBER | BLS |
| 49. | STACO PLC | SEPTEMBER | BLS |
| 50. | STARCOMMS PLC | SEPTEMBER | BLS |
| 51. | UNIC INSURANCE PLC | SEPTEMBER | BLS |
| 52. | UNIVERSAL INSURANCE COMPANY PLC | SEPTEMBER | BLS |
| 53. | UTC NIGERIA PLC | SEPTEMBER | BLS |
| 54. | WEST AFRICA GLASS INDUSTRIES PLC | SEPTEMBER | BLS/ Restructuring |
| 55. | COSTAIN (WEST AFRICA) PLC | DECEMBER | BLS |
| 56. | ROADS NIGERIA PLC | DECEMBER | BLS |
| 57. | HONEYWELL FLOUR MILL PLC | DECEMBER | BLS |
| 58. | ASO SAVINGS & LOANS PLC | DECEMBER | BLS |
| 59. | UNION HOMES SAVINGS & LOANS PLC | DECEMBER | BLS |
| 60. | NIGERIAN GERMAN CHEMICAL PLC | DECEMBER | BLS |
| 61. | AVON CROWNCAPS & CONTAINER PLC | DECEMBER | BLS |
| 62. | ACADEMY PRESS PLC | DECEMBER | BLS |
| 63. | LENNARDS (NIGERIA) PLC | DECEMBER | BLS |
| 64. | THOMAS WYATT NIGERIA PLC | DECEMBER | BLS |

| 2013 (AUDITED) | | | |
|---|---|---|---|
| S/NO | COMPANY | QTR | SYMBOL |
| 1. | Costain (West Africa) Plc | March | BLS |
| 2. | G. Cappa Plc | March | BLS/ Restructuring |
| 3. | Premier Breweries Plc | March | BLS |
| 4. | Aso Savings Loans Plc | March | BLS |
| 5. | Union Homes Savings & Loans Plc | March | BLS |
| 6. | Nigerian German Chemical Plc | March | BLS |
| 7. | Thomas Wyatt Nigeria Plc | March | BLS |
| 8. | Multi-Trex Integrated Foods Plc | April | BLS |

## COMPANIES SLATED FOR DELISTING/RESTRUCTURING

The companies listed on Schedule five are slated for delisting/Restructuring for various reasons stated.

## SCHEDULE FIVE

| DELISTING IN PROCESS | | | |
|---|---|---|---|
| 1 | Pinnacle Point Group Plc | DIP | Company in liquidation process |
| 2 | Afrik Pharmaceutical Plc | DIP | Regulatory Delisting in progress for non-compliance with post listing obligation |
| 3 | The Tourist Company of Nigeria Plc | DIP | Voluntary delisting due to Free Float deficiency |
| 4. | Adswitch Plc | DIP | Voluntary delisting due to harsh economic climate |

| RESTRUCTURING | | | |
|---|---|---|---|
| 1 | Union Dicon Salt Plc | RESTRG | The company is Restructuring to regularize its post-listing status on The NSE |
| 2 | Jos International Breweries Plc | RESTRG | The company is Restructuring to regularize its post-listing status on The NSE |
| 3 | Stokvis Nigeria Plc | RESTRG | The company is Restructuring to regularize its post-listing status on The NSE |
| 4 | Nigerian Sewing Machine Plc | RESTRG | The company is Restructuring to regularize its post-listing status on The NSE |
| 5 | Aluminium Manufacturing Company of Nigeria Plc | RESTRG | The company is Restructuring to regularize its post-listing status on The NSE |
| 6 | Rak Unity Petroleum Plc | RESTRG | The company is Restructuring to regularize its post-listing status on The NSE |

## BREACH OF VOLUNTARY DELISTING PROCESS

**CAPPA & D'ALBERTO NIGERIA PLC**

Cappa & D'Alberto Nigeria Plc released itself from compliance with the obligations inherent of a listed company as it failed to follow through the entire voluntary delisting process of The Exchange, which includes *inter alia,* paying off dissenting shareholders who opted to exit the company following the resolution passed by the majority shareholders on March 24, 2009, to delist. The resolution passed by the majority shareholders at the Extra- Ordinary General Meeting of March 24, 2009, does not exempt Cappa & D'Alberto Nigeria Plc from complying with regulatory obligations.

The Exchange will take appropriate legal steps to enforce its Rules and protect the interest of Investors.

## DISCLOSURE VIOLATIONS

**UNAUTHORISED PUBLICATIONS & NON-DISCLOSURE OF MATERIAL INFORMATION**

Every listed company is required to provide The Exchange with timely information to enable it efficiently perform its function of maintaining an orderly market. In accordance with the provisions of Appendix 111 of the Listing Rules, quoted companies are required to obtain prior written approval from The Exchange before publications that affect shareholders' interest are made in the media. In addition, companies are also required to disclose material information to The Exchange and publish some of that information in their Annual Reports.

The companies listed in Schedules six and seven breached these provisions of the Listing Rules and were sanctioned accordingly. The Exchange applied the sanctions prescribed in Rules and the companies have discharged their financial obligations.



## SCHEDULE SIX

| PUBLICATION WITHOUT NSE'S PRIOR WRITTEN APPROVAL IN 2013 | | |
|---|---|---|
| | **NAME OF COMPANIES** | **NATURE OF PUBLICATION** |
| 1 | Custodian & Allied Insurance Plc | Notice of Court Ordered Meeting |
| 2 | Crusader Insurance Plc | Notice of Court Ordered Meeting |
| 3 | Wapic Insurance Plc | Appointment of Directors |
| 4 | Honeywell Flour Plc | Unauthorized Publication of EGM |
| 5 | Forte Oil Plc | Unauthorized publication of notice of EGM. |
| **NON- DISCLOSURE OF INFORMATION** | | |
| | **NAME OF COMPANIES** | **NATURE OF PUBLICATION** |
| 1 | Julius Berger Nigeria Plc | Non-disclosure of the Substantial shareholding of Oasis Petroleum Company Limited in the 2011 Annual Reports and Account. Oasis Petroleum Company Limited holds 9.8% of Julius Berger shares. |
| 2 | Sterling Bank Plc | Non-disclosure of Bond Issuance to The Exchange |
| 3 | Sterling Bank Plc | Non-compliance with NSE directives |

| | | |
|---|---|---|
| 4 | Sovereign Trust Insurance Plc | Non-compliance with NSE directives |
| 5 | Forte Oil Plc | Non-Compliance with NSE rules |
| 6 | Oasis insurance Plc | Non-disclosure of the Substantial shareholding of Oasis Group and Metrovest Ltd in the 2010, 2011 and 2012 Annual Reports and Account. |

| PUBLICATION WITHOUT NSE'S PRIOR WRITTEN APPROVAL IN 2012 | | |
|---|---|---|
| **S/NO** | **NAME OF COMPANIES** | **NATURE OF PUBLICATION** |
| 1 | Multiverse Plc | Appointment of Directors |
| 2 | Unity Bank Plc | Notice of Divestment of Holdings of Unity Bank Plc from its non-banking subsidiaries |
| 3 | First Bank of Nigeria Plc | Notice of Extra-Ordinary General Meeting |
| 4 | Costain (West Africa) Plc | Appointment of External Auditor |

## SCHEDULE SEVEN

### SANCTIONS FOR DEFAULT FILINGS OF FINANCIAL STATEMENTS

The information published in schedules eight and nine are the list of companies that filed their 2011 and 2012 Financial Statements after the regulatory due date. The Exchange applied sanctions in accordance with the provisions of Section 14 of Appendix 111 of the Listing Rules.

### 2013 DEFAULT FILINGS

| AUDITED ACCOUNTS DEFAULT FILINGS IN 2013 | | | |
|---|---|---|---|
| **S/NO** | **NAME OF COMPANIES** | **FISCAL YEAR** | **PENALTY (₦)** |
| 1. | Costain (West Africa) Plc | March 2012 | 3,600,000.00 |
| 2. | Transnational Corporation Plc | December 2012 | 300,000.00 |
| 3. | MRS Oil Plc | December 2012 | 200,000.00 |
| 4. | Multiverse Plc | December 2012 | 300,00.00 |
| 5. | May & Baker Plc | December 2012 | 200,000.00 |
| 6. | Premier Paints Plc | December 2012 | 600,000.00 |
| 7. | Dangote Flour Mills Plc | December 2012 | 500,000.00 |
| 8. | UBA Plc | December 2012 | 200,000.00 |
| 9. | Wapic Insurance Plc | December 2012 | 700,000.00 |
| 10 | Oando Plc | December 2012 | 600,000.00 |
| 11 | Consolidated Hallmark Insurance Plc | December 2012 | 900,000.00 |
| 12 | NCR (Nigeria) Plc | December 2012 | 900,000.00 |

| | | | |
|---|---|---|---|
| 13 | Studio Press Plc | December 2012 | 900,000.00 |
| 14 | Wema Bank Plc | December 2012 | 1,100,000.00 |
| 15 | Conoil Plc | December 2012 | 1,500,000.00 |
| 16 | Red Star Express Plc | March 2013 | 300,000.00 |
| 17 | AIICO Insurance Plc | December 2012 | 1,500,000.00 |
| 18 | Avon Crowncap & Containers Plc | March 2013 | 300,000.00 |
| 19 | Capital Hotel Plc | December 2012 | 1,600,000.00 |
| 20 | Fortis Micro Finance Plc | December 2012 | 1,800,000.00 |
| 21 | Unity Kapital Insurance Plc | December 2012 | 2,100,000.00 |
| 22 | Custodian & Allied Insurance Plc | December 2012 | 2,200,000.00 |
| 23 | Royal Exchange Plc | December 2012 | 2,600,000.00 |
| 24 | C & I Leasining Plc | December 2012 | 2,800,000.00 |
| 25 | Cornerstone Insurance Plc | December 2012 | 2,800,000.00 |
| 26 | Sovereign Trust Insurance Plc | December 2012 | 2,400,000.00 |
| 27 | Eterna Plc | December 2012 | 2,600,000.00 |
| 28 | Regency Alliance Insurance Plc | December 2012 | 2,500,000.00 |
| 29 | Nigerian German Chemicals Plc | March 2012 | 6,800,000.00 |
| 30 | Law Union and Rock Plc | December 2012 | 2,700,000.00 |
| 31 | Prestige Assurance Plc | December 2012 | 2,900.000.00 |
| 32 | Omatek Ventures Plc | December 2012 | 2,900.000.00 |
| 33 | Nigerian Enamelware Plc | April 2013 | 1,300,000.00 |
| 34 | I.H.S. Plc | April 2013 | 1,600,000.00 |
| 35 | Mutual benefit Assurance Plc | December 2012 | 3,400,000.00 |
| 36 | NEM Insurance Plc | December 2012 | 3,500,000.00 |
| 37 | Linkage Assurance Plc | December 2012 | 3,600,000.00 |
| 38 | Standard Alliance Insurance Plc | December 2012 | 3,600,000.00 |
| 39 | NEM Insurance Plc | December 2012 | 3,500,000.00 |
| 40 | Lasaco Assurance Plc | December 2012 | 3,600,000.00 |
| 41 | Staco Insurance Plc | December 2012 | 3,500,000.00 |
| 42 | Equity Assurance Plc | December 2012 | 3,200,000.00 |
| 43 | Niger Insurance Plc | December 2012 | 3,200,000.00 |
| 44 | Great Nigeria Insurance Plc | December 2012 | 3,800,000.00 |
| 45 | Guinea Insurance Plc | December 2012 | 3,800,000.00 |
| 46 | African Alliance Insurance Plc | December 2012 | 4,000,000.00 |
| 47 | Universal Insurance Plc | December 2012 | 4,200,000.00 |
| 48 | C & I Leasing Plc | December 2012 | 2,800,000.00 |

2012 DEFAULT FILINGS

| AUDITED ACCOUNTS DEFAULT FILINGS IN 2012 | | | |
|---|---|---|---|
| S/NO | NAME OF COMPANIES | FISCAL YEAR | PENALTY (₦) |
| 1 | C & I Leasing Plc | January 2012 | 1,050,000.00 |
| 2 | Costain (West Africa) Plc | March 2011 | 2,850,000.00 |
| 3 | John Holt Plc | September 2011 | 1,700,000.00 |
| 4 | Eterna Plc | December 2011 | 100,000.00 |
| 5 | FTN Cocoa Plc | December 2011 | 200,000.00 |
| 6 | Dangote Flour Mills Plc | December 2011 | 400,000.00 |
| 7 | Regency Alliance Insurance Plc | December 2011 | 500,000.00 |
| 8 | Oando Plc | December 2011 | 500,000.00 |
| 9 | Premier Paints Plc | December 2011 | 700,000.00 |
| 10 | Scoa Nigeria Plc | December 2011 | 800,000.00 |
| 11 | Universal Insurance Plc | December 2011 | 900,000.00 |
| 12 | Union Bank Plc | December 2011 | 900,000.00 |
| 13 | Royal Exchange Plc | December 2011 | 900,000.00 |
| 14 | Crusader Nigeria Plc | December 2011 | 800,000.00 |
| 15 | Niger Insurance Plc | December 2011 | 900,000.00 |
| 16 | Unity Kapital Assurance Plc | December 2011 | 900,000.00 |
| 17 | Conoil Plc | December 2011 | 1,200,000.00 |
| 18 | Cornerstone Insurance Plc | December 2011 | 1,500,000.00 |
| 19 | Linkage Assurance Plc | December 2011 | 3,300,000.00 |
| 20 | Guinea Insurance Plc | December 2011 | 2,700,000.00 |
| 21 | The Tourist Company of Nigeria Plc | December 2011 | 100,000.00 |
| 22 | Wema Bank Plc | December 2011 | 2,700,000.00 |
| 23 | IPWA Plc | December 2011 | 2,700,000.00 |
| 24 | Unic Insurance Plc | December 2011 | 2,800,000.00 |
| 25 | Equity Assurance Plc | December 2011 | 3,000,000.00 |
| 26 | Standard Alliance Plc | December 2011 | 3,000,000.00 |
| 27 | Great Nigeria Insurance Plc | December 2011 | 3,000,000.00 |
| 28 | African Alliance Insurance Plc | December 2011 | 3,000,000.00 |
| 29 | STACO Plc | December 2011 | 3,400,000.00 |
| 30 | Ikeja Hotel Plc | December 2011 | 3,400,000.00 |
| 31 | DAAR Communication Plc | December 2011 | 3,400,000.00 |
| 32 | International Energy Insurance Plc | December 2011 | 3,800,000.00 |

| | | | |
|---|---|---|---|
| 33 | Mutual Benefit Assurance Plc | December 2011 | 3,000,000.00 |

## FREE FLOAT DEFICIENCIES

Companies listed on The Exchange must maintain a minimum free float for the set standards under which they are listed in order to ensure that there is an orderly and liquid market in their securities. The free float requirement for companies on the Main Board is 20% and 15% for ASEM companies.

The Exchange has identified three companies that have free float deficiencies. These companies applied for waivers from the Quotations Committee of Management specifically provided compliance plans with tentative timelines to support their requests.

The Quotations Committee of Management considered and approved an extended timeframe for the companies to regain compliance with the listing requirement. The companies are however required to also provide quarterly disclosure reports to The Exchange detailing their level of implementation of the compliance plans.

The names of the companies in this category are contained in schedule nine.

## SCHEDULE EIGHT

| COMPANIES WITH FREE FLOAT DEFICIENCIES | | |
|---|---|---|
| **ISSUER** | **% OF FREELOAT** | **COMPLIANCE DUE DATE** |
| **Dangote Cement Plc** | **4.93** | **October 26, 2014** |
| **Union Bank of Nigeria Plc** | **14.94** | **June 30, 2017** |
| **Wema Bank Plc** | **19.64** | **April 27, 2014** |

## TRANSPARENCY DISCLOSURE: APPLICATIONS APPROVED

The Quotations Committee of Management considered and approved the following Applications but the instruments are yet to be listed on the Daily Official List.

## SCHEDULE NINE

**APPROVALS IN 2013 BUT YET TO BE LISTED**

| LIST OF APPLICATIONS APPROVED BY QCM ON FEBRUARY 11, 2014 | | | |
|---|---|---|---|
| ISSUER | CAPITAL RAISING METHOD | STOCK BROKER | ISSUING HOUSE |
| **BLOCK DIVESTMENT** | | | |
| Oasis Insurance Plc | Block Divestment of 4,630,595,326 ordinary shares of 50k each of | FBN Securities Limited | Not Applicable |

| | | | |
|---|---|---|---|
| | Oasis Insurance Plc owned by Oasis Group Limited and MetroWest Investments Limited to FBN Assurance Limited | | |
| Great Nigeria Insurance Plc | Representation of Block Divestment of 2,870,614,035 ordinary shares of 50 Kobo Each of Great Nigeria Insurance Plc by Wema Bank Plc | Independent Securities Ltd. | Not Applicable |
| **VOLUNTARY DELISTING** | | | |
| I Nigeria Plc | Consideration and approval of Voluntary Delisting of the Company and its entire Issued Shares from the Daily Official List | Atlass Portfolios Limited | Not Applicable |
| | **STATE GOVERNMENT BOND** | | |
| Nasarawa State Government of Nigeria | Ratification of Approval-In-Principle of N5 Billion 15% Fixed Rate Bonds Series 1 Due 2021 under the N20 Billion Medium Term Note Programme | Dun Loren Merrifield Securities Ltd and NewDevco Investment Securities Co. Ltd | Dunn Loren Merrifield and Stanbic IBTC Capital Limited |
| Kogi State Government of Nigeria | Ratification of Approval-In-Principle of N5 Billion 15% Fixed Rate Bonds Series 1 due 2020 under the N20 Billion Bonds Issuance Programme | Greenwich Securities Limited; CardinalStone Securities Ltd; Cowry Securities Ltd; Springboard Trust & Investment Ltd; Resort Securities & Trust Ltd | Afrinvest (West Africa) Limited; BGL Plc; Greenwich Trust Ltd and Radix Capital Partners Ltd |
| Ekiti State Government of Nigeria | Ratification of Approval-In-Principle of N5 Billion 14.5% Fixed Rate Bonds Series II due 2020 under the N25 Billion Bonds Issuance Programme | Century Securities Ltd, Anchoria investment Securities Ltd, Greenwich Securities Ltd, Fidelity Securities Ltd, Independent Securities Ltd, Integrated Trust & Investment Ltd, Kedari Securities Ltd, Securities Africa | Greenwich Trust Ltd; FBN Capital Limited, Fidelity Securities Ltd; Morgan Capital Securities Ltd; Skye Financial Services Ltd; Sterling Capital Markets Ltd. |

| | | | |
|---|---|---|---|
| | | Financial Ltd | |

| LIST OF APPLICATIONS APPROVED BY QCM ON DECEMBER 19, 2013 | | | |
|---|---|---|---|
| ISSUER | CAPITAL RAISING METHOD | STOCK BROKER | ISSUING HOUSE |
| | **ETF** | | |
| VETIVA GRIFFIN 30 ETF | Ratification of changes made to the initial Application of VNSE 30 Index Securities for 100,000,000 units already approved by the QCM in November 2012 | Vetiva Securities Limited | Cordros Capital |
| **CORPORATE BOND** | | | |
| Nigerian Aviation Handling Company Plc | Offer for Subscription of N2.05 billion 15.25% Fixed Rate Senior Unsecured Bonds Issue (Series 2) due 2020 under a N5 Billion Debt Issuance Programme | CSL Stockbrokers Ltd; Marina Securities Ltd; Compass Investment & Securities Ltd; Stanwal Securities Ltd; Tiddo Securities Ltd; Yuderb Investments & Securities Ltd and PAC Securities Limited | Chapel Hill Advisory Partners Ltd; FCMB Capital Markets Ltd; Skye Financial Services Ltd; Stanbic IBTC Capital Ltd; PanAfrican Capital Ltd; UBA Capital Plc |
| | **STATE GOVERNMENT BOND** | | |
| Niger State Government | Offer for Subscription of N12 Billion 14% Fixed Rate Bonds, Series 1 Due 2018 Under the N21 Billion Medium Term Note Programme | Emerging Capital Ltd; Strategy & Arbitrage Ltd, Equity Capital Solutions, Cowry Securities Ltd, Marina Securities Ltd and Chapel Hill Denham Securities Limited | Planet Capital Limited |
| | **BLOCK DIVESTMENT** | | |
| ARBICO PLC | Block Divestment of 105,400,000 ordinary shares of 50k each representing 70.98% in Arbico Plc in favour of R28 Limited | TRW Stockbrokers Limited | Not Applicable |

| APPLICATIONS APPROVED ON SEPTEMBER 25, 2013 | | | |
|---|---|---|---|
| **ISSUER** | **CAPITAL RAISING METHOD** | **STOCK BROKER** | **ISSUING HOUSE** |
| **RIGHTS ISSUE** | | | |
| Pharma-Deko Plc | Application for approval and listing of a Rights Issue of 150,000,000 ordinary shares of 50k each at N1.80 per share | Integrated Trust Investment Limited and ICMG Securities Limited | Integrated Trust & Investment Limited |
| **INITIAL PUBLIC OFFER (IPO)** | | | |
| McNichols Consolidated Plc | Application for approval of IPO of 230,000,000 ordinary shares of 50k each at N1.55 per share and listing of the Company and its entire paid up share capital | Morgan Capital Securities Limited | Morgan Capital Securities Limited and CashCraft Assets Management Limited |
| Omoluabi Savings & Loans Plc | Application for approval and Listing of IPO of 3,000,000,000 ordinary shares of 50k each at N0.55 per share of the Issuer and its entire issued shares | Morgan Capital Securities Limited | Morgan Capital Securities Limited |



| APPLICATIONS APPROVED ON JULY 30, 2013 | | | |
|---|---|---|---|
| **ISSUER** | **CAPITAL RAISING METHOD** | **STOCK BROKER** | **ISSUING HOUSE** |
| **PLACING** | | | |
| Oando Plc | Placing of 2,046,706,324 ordinary shares of 50k each at N15.00 per share | Vetiva Securities Limited; APT Securities & Funds Limited; CSL Stockbrokers Limited; Cordros Capital Limited and Partnership Investment Company Plc | Vetiva Capital Management Limited; FBN Capital Limited and FCMB Capital Markets Limited |

| APPLICATIONS APPROVED ON MAY 27, 2013 | | | |
|---|---|---|---|
| **ISSUER** | **CAPITAL RAISING METHOD** | **STOCK BROKER** | **ISSUING HOUSE** |
| **RIGHTS ISSUE** | | | |

| | | | |
|---|---|---|---|
| Resort Savings & Loans Plc | Rights Issue of 3,776,577,416 ordinary shares of 50k each at par and Initial Public Offering (IPO) of 3,160,218,169 ordinary shares of 50k each at N0.51 per share | Greenwich Securities Limited, Capital Assets Limited, Dunbell Securities Limited, Dun Loren Merrifield Securities Limited, Imperial Assets Managers Limited, Resort Securities & Trust Limited and Trust Yield Securities Limited | Greenwich Trust Limited |

| APPLICATIONS APPROVED ON MARCH 25, 2013 | | | |
|---|---|---|---|
| **ISSUER** | **CAPITAL RAISING METHOD** | **STOCK BROKER** | **ISSUING HOUSE** |
| **MERGER AND ACQUISITION** | | | |
| Flour Mills of Nigeria Plc | Scheme of Merger between Flour Mills of Nigeria Plc and Niger Mills Company Limited | Chapel Hill Denham Securities Limited | Chapel Hill Advisory Partners Ltd |

## APPROVED IN 2012 BUT YET TO BE LISTED

| APPLICATIONS APPROVED ON NOVEMBER 1, 2012 | | | |
|---|---|---|---|
| **ISSUER** | **CAPITAL RAISING METHOD** | **STOCKBROKERS** | **ISSUING HOUSE** |
| **RIGHTS ISSUE** | | | |
| Prestige Assurance Plc | Rights Issue of 2,508,315,438 Ordinary Shares of 50k each at N0.50 per Share | Imperial Asset Managers Limited | Nigerian Stockbrokers Limited, Sterling Capital Markets Limited |
| **APPROVED APPLICATIONS AS AT SEPTEMBER 28, 2012** | | | |
| **ISSUER** | **CAPITAL RAISING METHOD** | **STOCKBROKERS** | **ISSUING HOUSE** |
| **MERGERS** | | | |
| Cornerstone Insurance Plc (aborted) | Scheme of Merger between Cornerstone Insurance Plc and Linkage Insurance Plc | CSL Stockbrokers Limited | FCMB Capital Market Limited |

| NEW ISSUES SINCE 2012 | | | | |
|---|---|---|---|---|
| **COMPANY** | **DATE LISTED** | **VALUE (N)** | **SHARES ADDED (VOLUME)** | **DESCRIPTION** |
| **Oando Plc** | 17/02/2014 | Not Applicable | 2,046,706,324 | Placing |
| **UBA Capital Plc** | 27/01/2014 | Not Applicable | 2,000,000,000 | Rights |
| **La Casera Company Plc** | 22/01/2014 | 3,000,000,000 | Not Applicable | Corporate Bond |
| **Sterling Bank Plc** | 20/01/2014 | Not Application | 5,888,949,162 | Rights |
| **FSDH Funding SPV Plc:** | 09/01/2014 | 5,530,000,000 | Not Applicable | Corporate Bond |
| **Osun State Government of Nigeria** | 08/01/2014 | 11,400,000,000 | Not Applicable | Government Bond |
| **Lagos State Government of Nigeria** | 13/12/2013 | 87,500,000,000 | Not Applicable | Government Bond |
| **Berger Paints Nigeria Plc** | 13/12/2013 | Not Applicable | 72,455,862 | Rights |
| **Infinity Trust Mortgage Bank Plc** | 11/12/2013 | Not Applicable | 4,170,445,720 | Introduction |
| **Cadbury Nigeria Plc** | 10/12/2013 | Not Applicable | 1,186,079 | Scheme Shares |
| **Computer Warehouse Group Plc** | 15/11/2013 | Not Applicable | 2,524,826,359 | Introduction |
| **Wema Bank Plc** | 21/10/2013 | Not Applicable | 26,667,123,333 | Placing |
| **Aso Savings Loans Plc** | 11/10/2013 | Not Applicable | 6,062,585,126 | Rights |
| **Wapic Insurance Plc** | 18/09/2013 | Not Applicable | 5,444,590,269 | Rights |
| **Ecobank Transnational Inc Plc** | 05/09/2013 | Not Applicable | 3,125,000,000 | Placing |
| **African Paints Nigeria Plc** | 28/08/2013 | Not Applicable | 108,461,038 | Rights |
| **Transnational Corporation of Nigeria Plc** | 27/08/2013 | Not Applicable | 12,906,999,142 | Rights |
| **Courteville Business Solutions Plc** | 10/7/2013 | Not Applicable | 592,000,000 | Bonus |
| **UACN Property Development Company Plc** | 01/07/2013 | 30,000,000,000 | Not Applicable | IPO |
| **FCMB Group Plc** | 24/06/2013 | Not Applicable | 19,802,710,754 | Introduction |
| **Oando Plc** | 10/06/2013 | Not Applicable | 4,548,236,276 | Rights |
| **First City Monument Bank Plc** | 5/6/2013 | Not Applicable | 432,445,720 | Bonus |
| **UAC of Nigeria Plc** | 27/5/2013 | Not Applicable | 320,144,064 | Bonus |
| **Cap Plc** | 24/5/2013 | Not Applicable | 140,000,000 | Bonus |
| **Okomu Oil Palm Plc** | 14/05/2013 | Not Applicable | 476,955,000 | Bonus |
| **BOC Gases Plc** | 14/05/2013 | Not Applicable | 23,124,706 | Bonus |
| **Custodian & Allied Insurance Plc** | 13/05/2013 | Not Applicable | 781,017,387 | Scheme Shares |
| **Livestock Feeds Plc** | 25/04/2013 | Not Applicable | 800,000,000 | Placing |
| **Osun State Government** | 23/04/2013 | 30,000,000,000 | Not Applicable | Government Bond |
| **Rak Unity Petroluem Company Plc** | 17/04/2013 | Not Applicable | 43,051,159 | Placing |
| **C & I Leasing Plc** | 15/04/2013 | 940,000,000 | Not Applicable | Corporate Bond |
| **Flour Mills of Nigeria Plc** | 11/04/2013 | Not Applicable | 50,893,281 | Scheme Shares |
| **Guinea Insurance Plc** | 28/03/2013 | Not Applicable | 740,000,000 | Placing |
| **International Finance Corporation** | 26/03/2013 | 12,000,000,000 | Not Applicable | Supranational Bond |
| **Crusader (Nigeria) Plc** | 15/02/2013 | Not Applicable | 3,064,686,154 | Conversion of Bond |
| **Gombe State Bond** | 11/02/2013 | 20,000,000,000 | Not Applicable | Government Bond |

| | | | | |
|---|---|---|---|---|
| **Guinness Nigeria Plc** | 08/02/2013 | Not Applicable | 30,962,669 | Bonus |
| **Lagos State Government** | 01/02/2013 | 80,000,000,000 | Not Applicable | Government Bond |
| **First City Monument Band Plc** | 28/01/2013 | Not Applicable | 1,090,839,722 | Scheme Shares/Bonus |
| **Wapic Insurance Plc** | 28/01/2013 | Not Applicable | 2,911,954,418 | Scheme Shares |
| **Linkage Insurance** | 18/01/2013 | Not Applicable | 2,897,207,843 | Placing |
| **Africa Prudential Registrars Plc** | 11/01/2013 | Not Applicable | 1,000,000,000 | Listing by Introduction |
| **UBA Capital Plc** | 11/01/2013 | Not Applicable | 4,000,000,000 | Listing by Introduction |
| **FBN Fixed Income Fund** | 24/12/2012 | 1,752,200,000 | Not Applicable | Memorandum Listing |
| **FBN Money Market Fund** | 24/12/2012 | 1,798,440,000 | Not Applicable | Memorandum Listing |
| **FBN Holdings Plc** | 26/11/2012 | Not Applicable | 32,632,084,357 | Listing |
| **Stanbic IBTC Holding Plc** | 23/11/2012 | Not Applicable | 10,000,000,000 | Listing by Introduction |
| **Studio Press Nigeria Plc** | 24/10/2012 | Not Applicable | 252,104,285 | Placing |
| **Vono Products Plc** | 7/09/2012 | Not Applicable | 263,651,183 | Rights |
| **Nigerian Breweries Plc** | 15/08/2012 | Not Applicable | 142,092 | Scheme Shares |
| **Premier Paints Plc** | 15/08/2012 | Not Applicable | 48,000,000 | Placing |
| **Niger Insurance Plc** | 27/07/2012 | Not Applicable | 2,677,079,286 | Rights |
| **Unity Kapital Assurance Plc** | 25/07/2012 | Not Applicable | 866,666,666 | Bonus |
| **Ecobank Transnational Inc** | 20/07/2012 | Not Applicable | 401,259,881 | Scheme Shares |
| **Fortis Microfinance Bank Plc** | 20/6/2012 | Not Applicable | 1,630,091,000 | Listing By Introduction |
| **International Breweries Plc** | 11/06/2012 | Not Applicable | 1,149,611,749 | Rights |
| **Crusader Nigeria Plc Zero Coupon (Bond)** | 14/6/12 | 1,838,811,700 | N/A | Corporate Bond |
| **Unity Bank Plc** | 5/06/2012 | Not Applicable | 3,495,153,610 | Bonus |
| **Rt Briscoe Plc** | 16/05/2012 | Not Applicable | 196,059,480 | Bonus |
| **Nigerian Aviation Handling Co. Plc** | 14/5/2012 | Not Applicable | 246,093,750 | Bonus |
| **Dangote Cement Plc** | 14/5/2012 | Not Applicable | 1,549,137,037 | Bonus |
| **UBA Plc** | 2/5/2012 | Not Applicable | 646,693,873 | Bonus |
| **Mobil Oil Plc** | 2/5/2012 | Not Applicable | 60,099,210 | Bonus |
| **UBA Plc 2nd Tranche** | 01/05/2012 | 35,000,000,000 | Not Applicable | Corporate Bond |
| **FCMB Group Plc** | 23/4/2012 | Not Applicable | 2,440,678,830 | Bonus |
| **Afromedia Plc** | 20/4/2012 | Not Applicable | 403,549,726 | Bonus |
| **Poly Products Plc** | 16/4/2012 | Not Applicable | 10,000,000 | Bonus |
| **Union Bank of Nigeria Plc** | 11/4/2012 | Not Applicable | 14,402,681,471 | Placing |
| **Benue State Government** | 27/3/2012 | 13,000,000,000 | Not Applicable | Government Bond |
| **Access Bank Plc** | 20/3/2012 | Not Applicable | 5,000,000,000 | Scheme Shares |

| | | | | |
|---|---|---|---|---|
| **Chellarams Plc** | 20/3/2012 | 540,000,000 | Not Applicable | Corporate Bond |
| **Neimeth International Pharmaceuticals Plc** | 16/3/2012 | Not Applicable | 482,318,637 | Rights |
| **Lafarge Wapco Plc** | 5/03/2012 | 11,880,000,000 | Not Applicable | Corporate Bond |
| **Starcomms Plc** | 12/3/2012 | Not Applicable | 208,654,433 | Staff Incentive Scheme |
| **Ekiti State Government** | 13/3/2012 | 20,000,000,000 | Not Applicable | Government Bond |
| **HIS Plc Preference Shares Series Ii** | 8/3/2012 | 2,791,454,545 | Not Applicable | Preference Shares |
| **Flour Mills of Nigeria Plc** | 6/3/2012 | Not Applicable | 455,566,222 | Rights |
| **Austin Laz & Co. Plc** | 29/02/2012 | Not Applicable | 1,079,860,000 | Listing by Introduction |
| **Tower Funding Plc Tranche A** | 09/02/2012 | 3,630,000,000 | Not Applicable | Corporate Bond |
| **Tower Funding Plc Tranche B** | 09/02/2012 | 1,000,000,000 | Not Applicable | Corporate Bond |
| **Oasis Insurance Plc** | 25/01/2012 | Not Applicable | 1,500,000,000 | Placing |
| | | | | |

| **DELISTED ENTITIES/SECURITIES SINCE 2012** | |
|---|---|
| **NAME OF ENTITY** | **DATE DELISTED** |
| LAGOS STATE FIXED RATE REDEEMABLE BOND, 13.00 FEB | 09/02/2014 |
| 0.00% AMC DEC 2013 (SR.1 TR.1) | 03/01/2014 |
| 0.00% AMC DEC 2013 (SR.1 TR.2) | 03/01/2014 |
| 0.00% AMC DEC 2013 (SR1 TR3) | 03/01/2014 |
| Poly Product Plc | 12/12/2013 |
| 10.50% FGN NOV 2013 | 02/11/2013 |
| 10.98% FGN NOV 2013 | 02/11/2013 |
| 12.74% FGN OCT 2013 | 01/11/2013 |
| 3.75%+NTB RATE FGN SEP 2013 | 02/10/2013 |
| 16.% FGN JUN 2013 | 01/07/2013 |
| First City Monument Bank Plc | 24/06/2013 |
| Nigeria Wire Industries Plc | 03/06/2013 |
| West African Aluminium Products Plc | 03/06/2013 |
| 15.% FGN MAY 2013 | |
| Crusader Nigeria Plc | 13/05/2013 |
| Nigerian Bag Manufacturing Company Plc | 11/04/2013 |
| 5.5% FGN FEB 2013 | 01/03/2013 |
| Crusader (Nigeria) Plc – Zero Coupon Convertible Bond. | 15/02/2013 |
| 9.45% FGN Jan 2013 | 02/01/2013 |
| Hallmark Paper Products Plc | 19/12/2012 |
| Udeofson Garment Factory Plc | 19/12/2012 |
| Abplast Products Plc | 19/12/2012 |
| First Bank of Nigeria Plc | 26/11/2012 |
| Stanbic IBTC Bank Plc | 23/11/2012 |
| Ecobank Nigeria Plc | 20/7/2012 |

| | |
|---|---|
| Finbank Preference Shares | 09/02/2012 |

## MEETINGS

**MEETINGS FOR THE MONTH OF MARCH 2014**

| S/N | COMPANY | VENUE | DATE | TIME | TYPE OF MEETING |
|---|---|---|---|---|---|
| 1 | Ecobank Transnational Bank Inc. | The Ecobank Pan African Centre, Lome | March 3, 2014 | 10.00 a.m. | EGM |
| 2 | African Alliance Insurance Plc | Universal Hotel, Independence L/Out, Enugu | March 3, 2014 | 12.00 noon | AGM |
| 3 | Vitafoam Plc | NECA House, Plot A2, Hakeem Balogun St. CBD Alausa, Ikeja | March 6, 2014 | 10.00 a.m. | AGM |
| 4 | Great Nigeria Insurance Plc | Orchids Hotels, Lekki Lagos | March 26, 2014 | 11.00 a.m. | AGM |
| 5 | Forte Oil Plc | Bespoke Event Centre Lekki Ajah Expressway | March 28, 2014 | 10.00 a.m. | AGM |
| 6 | Union Homes REIT | 64, Opebi Road, Ikeja | 27/03/2014 | 10.00 a.m. | AGM |
| 7 | PZ Cussons Plc | Etal Hotel and Halls, Plot 30, Kudirat Abiola Way, Oregun, Ikeja | 13/03/2014 | 11.00 a.m. | EGM |
| 8 | Neimeth Plc | Lagos Airport Hotel, Ikeja | 17/03/2014 | 11.00 a.m. | EGM |
| 9 | Transnational Corporation Plc | Lagos Oriental Hotel, Lekki | 31/03/2014 | 10.00 a.m. | AGM |

**MEETINGS FOR THE MONTH OF FEBRUARY 2014**

| S/N | COMPANY | VENUE | DATE | TIME | TYPE OF MEETING |
|---|---|---|---|---|---|
| 1 | Lasaco Assurance Plc | NECA House, Plot A2, Hakeem Balogun St. CBD Alausa, Ikeja | February 6, 2014 | 11.00 a.m. | AGM |
| 2 | Oando Plc | The Incubator, Oniru, Lagos | February 18, 2014 | 10.00 a.m. | EGM |
| 3 | Staco Insurance Plc | Lagos Oriental Hotel, Lekki | February 19, 2014 | 11.00 a.m. | AGM |
| 4 | Linkage Assurance Plc | MUSON Centre, Onikan, Lagos | February 20, 2014 | 12.00 noon | AGM |
| 5 | Guinea Insurance Plc | Coy. Office, 33, Ikorodu Rd, Jibowu | February 20, 2014 | 11.00 a.m. | AGM |

**THE FOLLOWING MEETINGS HELD IN JANUARY 2014**

| S/N | COMPANY | VENUE | DATE | TIME | TYPE OF MEETING |
|---|---|---|---|---|---|
| 1 | Niger Insurance Plc | ASAA Pyramid Hotel, Kaduna | January 14, 2014 | 11.00 a.m. | AGM |
| 2 | IHS Plc | Eko Hotel, VI | January 21, 2014 | 11.00 a.m. | Court Ordered |
| 3 | Mutual Benefits Assurance Plc | Muson Centre Onikan, Lagos | January 30, 2014 | 11.00 a.m. | AGM |
| 4 | Standard Alliance Insurance Plc | Event Hall, Plot 1, Block 94, Providence Street, Lekki Phase 1, Lekki, Lagos | January 30, 2014 | 1.00 p.m. | AGM |
| 5 | NEM Insurance Plc | Golden Gate, Ikoyi | January 30, 2014 | 11.00 a.m. | AGM |

# X – COMPLIANCE REPORT

REPORT DATE: 06 March 2015

X-Compliance report is a transparency initiative of The Exchange which is designed to maintain market integrity and protect the investors by providing compliance related information on all listed companies.

Companies that are listed on The Exchange are required to adhere to high disclosure standards which are prescribed in Appendix 111 of the Listing Rules. Financial information which is periodic disclosure and on-going material events disclosure should be released to The Exchange in a timely manner to enable it efficiently perform its function of maintaining an orderly market.

THE X-COMPLIANCE REPORT PROVIDES INFORMATION ON:

- Released Financials
- Early Filers of Audited Accounts
- Delinquent Filers of Audited Accounts
- Delinquent Filers of Quarterly Reports
- Companies slated for Delisting/Restructuring
- Companies that breached the Listings Rules of The Exchange
- Enforcement Actions by The Exchange
- Companies that have been granted waivers to comply with the Free Float requirements
- Applications approved by the Quotations Committee of The Exchange
- Meetings of Companies

THE Nigerian STOCK EXCHANGE

# X – COMPLIANCE REPORT

## RELEASED FINANCIALS

Details of the released financials can be found on The Nigerian Stock Exchange website (www.nse.com.ng)

## EARLY FILERS

Early filers are companies that file their financial statements at least two weeks before the due date. Quoted companies on The Exchange are required to file their financial statements on a timely basis in accordance with Appendix 111 of the Listing Rules. The Exchange has identified the companies listed on Schedule One as companies that have exceeded the minimum listing standards in terms of timely disclosure of their Audited Annual and quarterly financial performance.
The Exchange is extremely proud of these companies and will continue to show case quoted companies that imbibe high corporate governance practices.

**SCHEDULE ONE**

2014/2015 AUDITED ACCOUNTS

| S/N | NAME OF COMPANY | YEAR END | DUE DATE | FILED DATE |
|---|---|---|---|---|
| 1 | Nigerian Breweries Plc | December 31, 2014 | March 31, 2015 | February 12, 2015 |
| 2 | Forte Oil Plc | December 31, 2014 | March 31, 2015 | February 19, 2015 |
| 3 | Guaranty Trust Bank Plc | December 31, 2014 | March 31, 2015 | March 31, 2015 |
| 4 | Zenith International Bank Plc | December 31, 2014 | March 31, 2015 | March 31, 2015 |



## DEFAULTERS (AUDITED ACCOUNTS)

The Exchange has identified the companies listed on Schedules two and three as companies that fell short of the minimum listing standards in terms of timely disclosure of their audited annual financial performance and are operating or operated Below the Listing Standards (BLS) or Awaiting Regulatory Approval (ARA) of The Exchange in the course of the year.

The sanctions for non-compliance with periodic financial disclosure obligations are clearly spelt out in Appendix 111 of the Listing Rules and The Exchange will protect the integrity of its rules.

SCHEDULE TWO

2013/2014 Audited Accounts

| S/NO | COMPANY | YEAR END | SYMBOL | REMARKS |
|---|---|---|---|---|
| 1. | Great Nigeria Insurance Plc | Dec | ARA | Non Rendition of Audited Financial Statements 2013 |
| 2. | International Energy Insurance | Dec | BLS | Non Rendition of Audited Financial Statements 2013 |
| 3. | Universal Insurance Company Plc | Dec | BLS | Non Rendition of Audited Financial Statements 2013 |
| 4. | Omatek Ventures Plc | Dec | BLS | Non Rendition of Audited Financial |

| | | | | |
|---|---|---|---|---|
| | | | | Statements 2013 |
| 5. | Costain (W.A) Plc | March | BLS | Non Rendition of Audited Financial Statements 2013 |
| 6. | Thomas Wyatt Nigeria Plc | March | BLS | Non Rendition of Audited Financial Statements 2014 |
| 7. | Lennards (Nigeria) Plc | September | BLS | Non Rendition of Audited Financial Statements 2013 |
| 8. | Deap Capital Mgt & Trust Plc | September | BLS | Non Rendition of Audited Financial Statements 2013 |
| 9. | Juli Plc | December | BLS | Non Rendition of Audited Financial Statements 2013 |
| 10. | Evans Medical Plc | December | BLS | Non Rendition of Audited Financial Statements 2013 |
| 11. | Costain (W.A.) Plc | March | BLS | Non Rendition of Audited Financial Statements 2014 |
| 12. | Premier Breweries Plc | March | BLS | Non Rendition of Audited Financial Statements 2014 |
| 13. | Aso Savings & Loans Plc | March | BLS | Non Rendition of Audited Financial Statements 2014 |
| 14. | Nigerian German Chemical Plc | March | BLS | Non Rendition of Audited Financial Statements 2014 |



DEFAULTERS (QUARTERLY ACCOUNTS)

Quoted companies on The Exchange are required to file their quarterly accounts within 45 days after the end of the quarter in accordance with Appendix 111 of the Listing Rules. Details of the quarterly filings are listed on Schedule five and can be downloaded from the released financials on the website.

The sanctions for non-compliance with periodic financial disclosure obligations are clearly spelt out in Appendix 111 of the Listing Rules and The Exchange will protect the integrity of its rules.

SCHEDULE THREE

2014 1st Qtr Accounts

| S/NO | COMPANY | QTR END | SYMBOL | REMARKS |
|---|---|---|---|---|
| 1. | Greif Nigeria Plc | Jan | BLS | Non Rendition of First Quarter Interim Report 2014 |
| 2. | Multi-Trex Integrated Foods Plc | July | BLS | Non Rendition of First Quarter Interim Report 2014 |
| 3. | Nigerian Enamelware Company Plc | July | BLS | Non Rendition of First Quarter Interim Report 2014 |
| 4. | Costain (West Africa) Plc | June | BLS | Non Rendition of First Quarter Interim Report 2014 |
| 5. | Roads Nigeria Plc | June | BLS | Non Rendition of First Quarter Interim Report 2014 |

| | | | | |
|---|---|---|---|---|
| 6. | Premier Breweries Plc | June | BLS | Non Rendition of First Quarter Interim Report 2014 |
| 7. | Aso Savings & Loans Plc | June | BLS | Non Rendition of First Quarter Interim Report 2014 |
| 8. | Nigerian German Chemical Plc | June | BLS | Non Rendition of First Quarter Interim Report 2014 |
| 9. | Thomas Wyatt Nigeria Plc | June | BLS | Non Rendition of First Quarter Interim Report 2014 |
| 10. | Smart Product Nigeria Plc | March | BLS | Non Rendition of First Quarter Interim Report 2014 |
| 11. | Capital Oil Plc | March | BLS | Non Rendition of First Quarter Interim Report 2014 |
| 12. | Juli Plc | March | BLS | Non Rendition of First Quarter Interim Report 2014 |
| 13. | Fortis Microfinance Bank Plc | March | BLS | Non Rendition of First Quarter Interim Report 2014 |
| 14. | Cornerstone Insurance Plc | March | BLS | Non Rendition of First Quarter Interim Report 2014 |
| 15. | Great Nigeria Insurance Plc | March | BLS | Non Rendition of First Quarter Interim Report 2014 |
| 16. | International Energy Insurance Plc | March | BLS | Non Rendition of First Quarter Interim Report 2014 |
| 17. | Mutual Benefit Assurance Plc | March | BLS | Non Rendition of First Quarter Interim Report 2014 |
| 18. | Niger Insurance Company Plc | March | BLS | Non Rendition of First Quarter Interim Report 2014 |
| 19. | Unic Insurance Plc | March | BLS | Non Rendition of First Quarter Interim Report 2014 |
| 20. | Unity Kapital Assurance Plc | March | BLS | Non Rendition of First Quarter Interim Report 2014 |
| 21. | Universal Insurance Company Plc | March | BLS | Non Rendition of First Quarter Interim Report 2014 |
| 22. | Wapic Insurance Plc | March | BLS | Non Rendition of First Quarter Interim Report 2014 |
| 23. | Resort Savings & Loans Plc | March | BLS | Non Rendition of First Quarter Interim Report 2014 |
| 24. | Evans Medical Plc | March | BLS | Non Rendition of First Quarter Interim Report 2014 |
| 25. | Omatek Ventures Plc | March | BLS | Non Rendition of First Quarter Interim Report 2014 |
| 26. | Austin Laz & Company Plc | March | BLS | Non Rendition of First Quarter Interim Report 2014 |
| 27. | Paints And Coatings Manufacturing Plc | March | BLS | Non Rendition of First Quarter Interim Report 2014 |

2014 2nd Qtr Accounts

| S/NO | COMPANY | QTR END | SYMBOL | REMARKS |
|---|---|---|---|---|
| 1 | Greif Nigeria Plc | April | BLS | Non Rendition of Second Quarter Interim Report 2014 |
| 2 | Capital Oil Plc | June | BLS | Non Rendition of Second Quarter Interim Report 2014 |
| 3 | Juli Plc | June | BLS | Non Rendition of Second Quarter Interim Report 2014 |
| 4 | Smart Products Nigeria Plc | June | BLS | Non Rendition of Second Quarter Interim Report 2014 |
| 5 | Navitus Energy Plc | June | BLS | Non Rendition of Second Quarter Interim Report 2014 |
| 6 | P.S Mandrides & Company Plc | June | BLS | Non Rendition of Second Quarter Interim Report 2014 |
| 7 | Premier Breweries Plc | June | BLS | Non Rendition of Second Quarter Interim Report 2014 |
| 8 | Fortis Microfinance Bank Plc | June | BLS | Non Rendition of Second Quarter Interim Report 2014 |
| 9 | Great Nigeria Insurance Plc | June | BLS | Non Rendition of Second Quarter Interim Report 2014 |
| 10 | International Energy Insurance Plc | June | BLS | Non Rendition of Second Quarter Interim Report 2014 |
| 11 | Mutual Benefit Assurance Plc | June | BLS | Non Rendition of Second Quarter Interim Report 2014 |
| 12 | Resort Savings & Loans Plc | June | BLS | Non Rendition of Second Quarter Interim Report 2014 |
| 13 | Unity Kapital Assurance Plc | June | BLS | Non Rendition of Second Quarter Interim Report 2014 |
| 14 | Universal Insurance Company Plc | June | BLS | Non Rendition of Second Quarter Interim Report 2014 |
| 15 | Ekocorp Plc | June | BLS | Non Rendition of Second Quarter Interim Report 2014 |
| 16 | Evans Medical Plc | June | BLS | Non Rendition of Second Quarter Interim Report 2014 |
| 17 | Omatek Ventures Plc | June | BLS | Non Rendition of Second Quarter Interim Report 2014 |
| 18 | African Paints (Nigeria) Plc | June | BLS | Non Rendition of Second Quarter Interim Report 2014 |
| 19 | Paints And Coatings Manufacturing Plc | June | BLS | Non Rendition of Second Quarter Interim Report 2014 |
| 20 | Premier Paints Plc | June | BLS | Non Rendition of Second Quarter |

| | | | | |
|---|---|---|---|---|
| | | | | Interim Report 2014 |
| 21 | C & I Leasing Plc | June | BLS | Non Rendition of Second Quarter Interim Report 2014 |
| 22 | Deap Capital Mgt & Trust Plc | March | BLS | Non Rendition of Second Quarter Interim Report 2014 |

## 2014 3rd Qtr Accounts

| S/NO | COMPANY | QTR END | SYMBOL | REMARKS |
|---|---|---|---|---|
| 1. | Multi-Trex Integrated Foods Plc | Jan | BLS | Non Rendition of Third Quarter Interim Report 2014 |
| 2. | Interlinked Technologies Plc | Mar | BLS | Non Rendition of Third Quarter Interim Report 2014 |

## COMPANIES SLATED FOR DELISTING/RESTRUCTURING

The companies listed on Schedule four are slated for delisting/restructuring for various reasons stated.

**SCHEDULE FOUR**

| **DELISTING IN PROCESS** | | | |
|---|---|---|---|
| 1 | The Tourist Company of Nigeria Plc | DIP | Voluntary delisting due to free float deficiency |
| | IHS Nigeria Plc | DIP | Voluntary delisting due to free float deficiency |

| **RESTRUCTURING** | | | |
|---|---|---|---|
| 1. | Aluminium Manufacturing Company of Nigeria Plc | RESTRG | The Company has obtained NSE's approval to restructure. |
| 2. | Nigerian German Chemical Plc | RESTRG | The Company has obtained NSE's approval to restructure. |
| 3. | Mti Plc | RESTRG | The Company has obtained NSE's approval to restructure. |
| 4. | Beco Petroleum Product Plc | RESTRG | The Company has obtained NSE's approval to restructure. |
| 5. | Unic Insurance Plc | RESTRG | The Company has obtained NSE's approval to restructure. |
| 6. | Adswitch Plc | RESTRG | The Company has obtained NSE's approval to restructure. |
| 7. | Jos International Breweries Plc | RESTRG | The Company has obtained NSE's approval to restructure. |
| 8. | Stokvis Nigeria Plc | RESTRG | The Company has obtained NSE's approval to restructure. |
| 9. | Nigerian Sewing Machine Plc | RESTRG | The Company has obtained NSE's approval to restructure. |
| 10. | G Cappa Plc | RESTRG | The Company has obtained NSE's approval to |

| | | | |
|---|---|---|---|
| | | | restructure. |
| 11. | Goldlink Insurance Plc | RESTRG | The Company has obtained NSE's approval to restructure. |
| 12. | Golden Guinea Breweries Plc | RESTRG | The Company has obtained NSE's approval to restructure. |
| 13. | UTC Nigeria Plc | RESTRG | The Company has obtained NSE's approval to restructure. |
| 14. | IPWA Plc | RESTRG | The Company has obtained NSE's approval to restructure. |
| 15. | Nigerian Wire & Cable Plc | RESTRG | The Company has obtained NSE's approval to restructure. |
| 16. | Daar Communications Plc | RESTRG | The Company has obtained NSE's approval to restructure. |
| 17. | West Africa Glass Industries Plc | RESTRG | The Company has obtained NSE's approval to restructure. |
| 18. | Rokana Industries Plc | RESTRG | The Company has obtained NSE's approval to restructure. |
| 19. | Mtech Plc | RESTRG | The Company has obtained NSE's approval to restructure. |
| 20. | Investment and Allied Insurance Plc | RESTRG | The Company has obtained NSE's approval to restructure. |
| 21. | FTN Cocoa Processors Plc | RESTRG | The Company has obtained NSE's approval to restructure. |



## DISCLOSURE VIOLATIONS

**UNAUTHORISED PUBLICATIONS & NON-DISCLOSURE OF MATERIAL INFORMATION**

Every listed company is required to provide The Exchange with timely information to enable it efficiently perform its function of maintaining an orderly market. In accordance with the provisions of Appendix 111 of the Listing Rules, quoted companies are required to obtain prior written approval from The Exchange before publications that affect shareholders' interest are made in the media. In addition, companies are also required to disclose material information to The Exchange and publish some of that information in their Annual Reports.

The companies listed in Schedules five and six breached these provisions of the Listing Rules and were sanctioned accordingly. The Exchange applied the sanctions prescribed in Rules and the companies have discharged their financial obligations.

**SCHEDULE FIVE**

| **PUBLICATION WITHOUT NSE'S PRIOR WRITTEN APPROVAL IN 2014** | |
|---|---|
| **NAME OF COMPANIES** | **NATURE OF PUBLICATION** |
| Ecobank Transnational Incorporated | Notice of Acquisition |
| Sterling Bank Plc | Appointment of Directors |

| | |
|---|---|
| LASACO Insurance Plc | Notice of Court Order Meeting |

| NON- DISCLOSURE OF INFORMATION IN 2014 | |
|---|---|
| **NAME OF COMPANIES** | **NATURE OF PUBLICATION** |
| Oasis insurance Plc | Non-disclosure of the Substantial shareholding of Oasis Group and Metrovest Ltd in the 2010, 2011 and 2012 Annual Reports and Account. |

**SCHEDULE SIX**

SANCTIONS FOR DEFAULT FILINGS OF FINANCIAL STATEMENTS

The information published in schedules eight and nine are the list of companies that filed their 2011 and 2012 Financial Statements after the regulatory due date. The Exchange applied sanctions in accordance with the provisions of Section 14 of Appendix 111 of the Listing Rules.

2015 DEFAULT FILINGS

| DEFAULT FILINGS OF AUDITED ACCOUNTS | | | |
|---|---|---|---|
| **S/NO** | **NAME OF COMPANIES** | **FISCAL YEAR** | **PENALTY (₦)** |
| 1. | Aso Savings and Loans Plc | December 2013 | 3,700, 000.00 |

2014 DEFAULT FILINGS

| DEFAULT FILINGS OF AUDITED ACCOUNTS | | | |
|---|---|---|---|
| **S/NO** | **NAME OF COMPANIES** | **FISCAL YEAR** | **PENALTY (₦)** |
| 2. | International Energy Insurance Plc | December 2012 | 5,400, 000.00 |
| 3. | Aso Savings and Loans Plc | December 2012 | 5,000 000.00 |
| 4. | Abbey Building Society Plc | December 2013 | 200,000.00 |
| 5. | Ikeja Hotels Plc | December 2012 | 5,500,000.00 |
| 6. | Interlinked Technologies Plc | June 2013 | 2,900,000.00 |
| 7. | National Salt Co. of Nig. Plc | December 2013 | 300,000.00 |
| 8. | Austin Laz & Co. Plc | December 2013 | 300,000.00 |
| 9. | Studio Press Plc | December 2013 | 400,000.00 |
| 10. | NCR Plc | December 2013 | 500,000.00 |
| 11. | Regency Alliance Insurance Plc | December 2013 | 600,000.00 |
| 12. | WAPIC Insurance Plc | December 2013 | 700,000.00 |
| 13. | Oasis Insurance | December 2013 | 700,000.00 |
| 14. | AIICO Insurance Plc | December 2013 | 800,000.00 |
| 15. | FTN Cocoa Processing Plc | December 2012 | 6,100,000.00 |
| 16. | FTN Cocoa Processing Plc | December 2013 | 900,000.00 |

| | | | |
|---|---|---|---|
| 17. | Niger Insurance Plc | December 2013 | 1,000,000.00 |
| 18. | Continental Reinsurance Plc | December 2013 | 900,000.00 |
| 19. | Law Union & Rock Insurance Plc | December 2013 | 600,000.00 |
| 20. | Sovereign Trust Insurance Plc | December 2013 | 1,100,000.00 |
| 21. | Fortis Microfinance Bank Plc | December 2013 | 1,100,000.00 |
| 22. | C & I Leasing Plc | December 2013 | 1,200,000.00 |
| 23. | Linkage Assurance Plc | December 2013 | 1,200,000.00 |
| 24. | Royal Exchange Plc | December 2013 | 1,400,000.00 |
| 25. | Guinea Insurance Plc | December 2013 | 1,500,000.00 |
| 26. | Prestige Assurance Plc | December 2013 | 1,600,000.00 |
| 27. | John Holt Plc | September 2013 | 2,900,000.00 |
| 28. | Conoil Plc | December 2013 | 1,400,000.00 |
| 29. | Daar Communication Plc | December 2012 | 7,100,000.00 |
| 30. | Oando Plc | December 2012 | 2,100,000.00 |
| 31. | Ikeja Hotel Plc | December 2012 | 2,100,000.00 |
| 32. | Lasaco Insurance Plc | December 2012 | 2,100,000.00 |
| 33. | Mutual Benefit Assurance Plc | December 2013 | 2,700,000.00 |
| 34. | Nigerian Enamelware Plc | April 2014 | 1,200,000.00 |
| 35. | Unity Kapital Assurance Plc | December 2013 | 3,000,000.00 |



## FREE FLOAT DEFICIENCIES

Companies listed on The Exchange must maintain a minimum free float for the set standards under which they are listed in order to ensure that there is an orderly and liquid market in their securities. The free float requirement for companies on the Main Board is 20% and 15% for ASEM companies.

The Exchange has identified three companies that have free float deficiencies. These companies applied for waivers from the Quotations Committee of Management specifically provided compliance plans with tentative timelines to support their requests.

The Quotations Committee of Management considered and approved an extended timeframe for the companies to regain compliance with the listing requirement. The companies are however required to also provide quarterly disclosure reports to The Exchange detailing their level of implementation of the compliance plans.

The names of the companies in this category are contained in schedule nine.

**SCHEDULE SEVEN**

| COMPANIES WITH FREE FLOAT DEFICIENCIES | | |
|---|---|---|
| **ISSUER** | **% OF FREELOAT** | **COMPLIANCE DUE DATE** |
| Dangote Cement Plc | 9.07 | October 26, 2016 |
| Union Bank of Nigeria Plc | 13.98 | June 30, 2017 |

| | | |
|---|---|---|
| Capital Hotel Plc | 2.23 | April 20, 2016 |
| Great Nigerian Insurance Plc | 16.00 | July 8, 2016 |
| Chellerams Plc | 14.87 | July 8. 2016 |
| Nigerian Ropes Plc | 13.96 | January 7, 2015 |
| Aluminium Extrusion Industries Plc | 17.55 | March 4, 2015 |
| | | |

TRANSPARENCY DISCLOSURE: APPLICATIONS APPROVED

The Quotations Committee of Management considered and approved the following Applications but the instruments are yet to be listed on the Daily Official List.

**SCHEDULE EIGHT**

**APPROVALS IN 2015 BUT YET TO BE LISTED**

| **LIST OF APPLICATIONS APPROVED BY QCN ON 30 JANUARY 2015** | | | |
|---|---|---|---|
| ISSUER | CAPITAL RAISING METHOD | STOCK BROKER | ISSUING HOUSE |
| **BONDS** | | | |
| UBA Plc | Offer for Subscription of up to N45 Billion Bond (Series 1) 7-Year 16.45% Fixed Rate Subordinated Unsecured Notes Due under a N345 Billion Medium Term Note Programme. | UBA Securities Limited, Futureview Securities Limited, ARM Securities Limited and Cowry Securities Limited | UBA Capital Plc, FSDH Merchant Bank Limited and Stanbic IBTC Capital Limited |



**APPROVALS IN 2014 BUT YET TO BE LISTED**

| **LIST OF APPLICATIONS APPROVED BY QCN ON 15 DECEMBER 2014** | | | |
|---|---|---|---|
| ISSUER | CAPITAL RAISING METHOD | STOCK BROKER | ISSUING HOUSE |
| **BONDS** | | | |
| FCMB Financing SPV Plc | Offer for Subscription of N26 Billion 14.25% Series 1 Fixed Unsecured Bonds Due 2021 under a N100 Billion Bonds Programme | CSL Stockbrokers Limited | Chapel Hill Advisory Partners Ltd; FCMB Capital Markets Ltd and Standard Chartered Securities (Nigeria) Ltd |
| Bauchi State Government | Offer for Subscription of N15 Billion 15.5% Series 1 Fixed Rate Bonds Due 2021 under the N30 Billion Medium Term Note Programme | Strategy & Arbitrage Limited, and North Bridge Investment & Trust Limited | Planet Capital Limited and Tiddo Securities Ltd |
| Oyo State Government | Offer for Subscription of N5 Billion 15% Fixed Rate Development Bonds Series 1 Due 2021 Under the N55 | BGL Securities Limited, Apel Securities Limited, Dunbel Securities Limited, DSU Brokerage Services Limited, | FBN Capital Limited, BGL Plc, Greenwich Trust Limited, Lead Capital Limited, Morgan Capital Securities Ltd, Radix Capital |

| | | | |
|---|---|---|---|
| | Billion Debt Issuance Programme | Forthright Securities & Investment Services Limited, Primera Africa Securities Limited, Vetiva Securities Limited and Yuderb Investment & Securities Limited | Securities Ltd, Skye Financial Services Ltd, Sterling Capital Markets Ltd and Vetiva Capital Management Ltd |
| **RIGHTS ISSUE** | | | |
| Oando Plc | Rights Issue of 2,217,265,184 ordinary shares of 50k each at N22.00 per share | Vetiva Securities Limited, APT Securities and Funds Limited, Cardinal Stockbrokers Limited, CSL Stockbrokers Limited, Partnership Securities Limited, Zenith Securities Limited | Vetiva Capital Management Limited, FBN Capital Limited and FCMB Capital Markets Limited, Marina Securities Limited, Stanbic IBTC Capital Limited and Zenith Capital Limited |
| Prestige Assurance Plc | Rights Issue of 3,009,978,524 ordinary shares of 50k each at par | Imperial Asset Managers Limited | Sterling Capital Markets Limited & Nigerian Stockbrokers Limited |
| UBA Plc | Rights Issue of 3,298,138,756 ordinary shares of 50k each at N6.20 per share | UBA Securities Limited, Futureview Securities Limited, Greenwich Securities Limited | UBA Capital Plc & BGL Capital Limited |
| Presco Plc | Rights Issue of 100,000,000 ordinary shares of 50k each at N30.00 per share | CSL Stockbrokers Limited and BGL Securities Limited | FCMB Capital Markets Limited & CardinalStone Partners Limited |

| **NEW LISTING IN 2015** | | | | | |
|---|---|---|---|---|---|
| **COMPANY/ISSUER** | **DATE LISTED** | **QUANTITY ADDED** | **UNIT PRICE** | **VALUE/MARKET CAP (N)** | **DESCRIPTION** |
| Fidson Healthcare Plc | 11/02/2015 | 2,000,000 | 1,000 | 2,000,000,000 | Corporate Bond |
| Sterling Bank Plc | 05/02/2015 | 7,471,698,113 | 2.45 | 18,305,660,376.85 | Placing |
| Allan Gray | 30/01/2015 | 43,024 | 34,541.45 | 1,486,111,344.80 | Memorandum Listing |
| Mansard Insurance Plc | 16/01/2015 | 500,000,000 | 2.85 | 1,425,000,000.00 | Employee Share Plan |
| Evans Medical Plc | 09/01/2015 | 245,874,570 | 2.28 | 560,594,019.60 | Rights Issue |
| Transcorp Hotels Plc | 15/01/2015 | 7,600,403,900 | 10 | 76,004,039,000.00 | Listing by IPO |
| Union Dicon Salt Plc | 14/01/2015 | 41,000,000 | 13.92 | 570,720,000.00 | Placing |

| **DELISTED ENTITIES/SECURITIES IN 2015** | | | | | |
|---|---|---|---|---|---|
| **NAME OF ENTITY** | **DATE DELISTED** | **QUANTITY DELISTED** | **PRICE** | **VALUE DELISTED** | **REASON FOR DELISTING** |
| | | | | | |
| Cappa D' Alberto | 16/01/2015 | 196,875,000 | 95.49 | 18,799,593,750.00 | voluntary |
| C & I Leasing Plc Loan Stock 2014 | 01/01/2015 | 2,240,005 | 1,000 | 2,240,005,000.00 | maturity |

## MEETINGS

### MEETINGS FOR THE MONTH OF JANUARY 2015

| S/N | Company | Venue | Date | Time | TYPE OF MEETING |
|---|---|---|---|---|---|
| 1 | Ikeja Hotel (Shareholders' requisitioned EGM) | Sheraton Hotel, Ikeja Lagos | January 6, 2015 | 10.00 a.m. | AGM |
| 2 | Unity Kapital Assurance | Ruiz Continental Hotel, Plot 779, Cadastral Zone AO, CBD Abuja | January 14, 2015 | 11.00 a.m. | AGM |
| 3 | FBN Heritage Fund (EGM) | Protea Hotel, Ikoyi | January 27, 2015 | 10.00 a.m. | EGM |